NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS Congressional Information Service, Inc. Washington, D.C.

S. HRG. 100-121 PT. 1

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1988

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 3186

AN ACT MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1988, AND FOR OTHER PURPOSES

PART 1 (Pages 1-246)

TITLE I—MULTILATERAL ECONOMIC ASSISTANCE

DEPARTMENT OF THE TREASURY
Contributions to International Financial Institutions

DEPARTMENT OF STATE
International Organizations and Programs

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

72-981 O WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

S181-29

COMMITTEE ON APPROPRIATIONS

JOHN C. STENNIS, Mississippi, *Chairman*

ROBERT C. BYRD, West Virginia
WILLIAM PROXMIRE, Wisconsin
DANIEL K. INOUYE, Hawaii
ERNEST F. HOLLINGS, South Carolina
LAWTON CHILES, Florida
J. BENNETT JOHNSTON, Louisiana
QUENTIN N. BURDICK, North Dakota
PATRICK J. LEAHY, Vermont
JIM SASSER, Tennessee
DENNIS DECONCINI, Arizona
DALE BUMPERS, Arkansas
FRANK R. LAUTENBERG, New Jersey
TOM HARKIN, Iowa
BARBARA A. MIKULSKI, Maryland
HARRY REID, Nevada

MARK O. HATFIELD, Oregon
TED STEVENS, Alaska
LOWELL P. WEICKER, JR., Connecticut
JAMES A. MCCLURE, Idaho
JAKE GARN, Utah
THAD COCHRAN, Mississippi
ROBERT W. KASTEN, JR., Wisconsin
ALFONSE M. D'AMATO, New York
WARREN RUDMAN, New Hampshire
ARLEN SPECTER, Pennsylvania
PETE V. DOMENICI, New Mexico
CHARLES E. GRASSLEY, Iowa
DON NICKLES, Oklahoma

FRANCIS J. SULLIVAN, *Staff Director*
MARY A. SHIELDS, *Chief Clerk*
J. KEITH KENNEDY, *Minority Staff Director*

SUBCOMMITTEE ON FOREIGN OPERATIONS

DANIEL K. INOUYE, Hawaii, *Chairman*

J. BENNETT JOHNSTON, Louisiana
PATRICK J. LEAHY, Vermont
DENNIS DECONCINI, Arizona
FRANK R. LAUTENBERG, New Jersey
TOM HARKIN, Iowa
BARBARA A. MIKULSKI, Maryland
JOHN C. STENNIS, Mississippi
ex officio

ROBERT W. KASTEN, JR., Wisconsin
MARK O. HATFIELD, Oregon
ALFONSE M. D'AMATO, New York
WARREN RUDMAN, New Hampshire
ARLEN SPECTER, Pennsylvania
DON NICKLES, Oklahoma

Professional Staff
RICHARD L. COLLINS
JAMES M. CUBIE
JAMES D. BOND (Minority)
Administrative Support
MAZIE R. MATTSON
JUANITA RILLING

CONTENTS

TUESDAY, FEBRUARY 24, 1987

Page

DEPARTMENT OF TREASURY:
Secretary of Treasury..... 1

THURSDAY, FEBRUARY 26, 1987

DEPARTMENT OF TREASURY:
Deputy Assistant Secretary for Developing Nations..... 67

THURSDAY, MARCH 12, 1987

UNITED NATIONS:
U.S. Permanent Representative..... 119
DEPARTMENT OF STATE:
International Organization Affairs..... 119
AGENCY FOR INTERNATIONAL DEVELOPMENT
Assistant Administrator for Policy Programming and Coordination..... 119

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1988

TUESDAY, FEBRUARY 24, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:07 a.m. in room SD–138, Dirksen Senate Office Building, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Leahy, Lautenberg, Harkin, Mikulski, Kasten, D'Amato, Specter, and Nickles.

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. JAMES A. BAKER III, SECRETARY OF THE TREASURY

ACCOMPANIED BY JAMES W. CONROW, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS

OPENING STATEMENT OF SENATOR INOUYE

Senator INOUYE. The hearing will please come to order.

Mr. Secretary, I am very pleased to welcome you to this, the first meeting of the Foreign Operations Subcommittee on the President's fiscal year 1988 budget request for Foreign Assistance and Related Programs. We are extremely honored to have you with us this morning.

It is not by accident that you have been asked to be the first to appear and present the justification for the President's request for foreign assistance. We wish to signal the importance we give to the President's request for funding of U.S. participation in the Multilateral Development Banks and to assure you that you have our support.

I am certain you realize that it will not be easy to obtain full funding of your request for the MDB's. Our colleagues have seen the discretionary spending of the Federal Government shrink while required spending has expanded dramatically.

In fact, if we remove three major elements of Government spending—direct payments to individuals, national defense, and interest on our burgeoning national debt—we find that the portion of the Government's budget for everything else that it does—from cancer research to highway construction, from space exploration to aid to education, everything, including foreign aid—has declined from 24 per-

cent at the beginning of the Reagan administration to 14.7 percent in the budget requests as presented today. I would like to point out that, within this shrinking pie, the slice for foreign aid has been increasing.

It will not be easy to obtain full funding, but we will do our best.

INCREASE IN MILITARY ASSISTANCE

Over the past several years, Mr. Secretary, we have seen a loss of the primacy the United States once gave to supporting the economic and social development of friendly countries in need. In part, this was due to a determination by the Reagan administration that levels of military assistance should be increased to meet what was perceived to be a neglect of the security requirements of our friends and allies.

But we must also be truthful and recognize that the shift away from economic assistance and, more particularly, multilateral development assistance was due to a broadly held view that the MDB's were unresponsive to legitimate U.S. concerns. Many felt, with some justification, that all too frequently the MDB's pursued lending for lending's sake without concern for the environmental or social or political consequences of their lending policies.

I believe we have learned much about foreign assistance in the past several years. We have learned that military assistance alone does not create security. We have learned that, if carried too far and in the absence of social and economic development, military assistance can become an insupportable burden. It is my opinion that our acceleration of military assistance has left in its wake a trail of debt and dependency which has fostered not security but insecurity.

FMS DEBT REFORMS

As you know, Mr. Secretary, this is one of the concerns Senator Kasten and I tried to address in our proposals last year for FMS debt reforms. We continue to watch with interest the development of the proposal you and Secretary Shultz have put forward. I understand that it had not been embraced enthusiastically by our friends.

HUMANITARIAN CONCERNS

Mr. Secretary, I believe that we have also learned that huminatarian concern, if not coupled with sound economic policies, does not alleviate the misery of the poor. We now see a broad consensus of the need for policy reform and performance-based lending in order to assure that our aid does in fact make a difference. No longer is it enough to feel for the poor; we must now insist that the poor get a chance to improve their own lot.

REFORMS IN MDB PROGRAMS

Mr. Secretary, I support what you are attempting to do in IDA and the Inter-American Development Bank. After further study, I believe that I will support the administration's proposed Fund for Africa within our bilateral programs. I think that the reforms you have initiated and the new pragmatic approach to development assistance will be favorably

recognized in the Congress and that, within overall totals, we will be able to expand support for economic assistance through our bilateral programs and through the MDB's.

In a moment we will turn to an examination of these issues, but now I would like to call upon my very distinguished colleague, Senator Kasten, for any opening remarks he may have. As you know, we have worked extremely well together as a team over the past 6 years and I am certain we will work well as a team over the next 6, 12 or 18 years. So with that, I would like to call upon my distinguished colleague.

OPENING REMARKS OF SENATOR KASTEN

Senator KASTEN. Mr. Chairman, thank you. I just have a few comments.

I first of all want to compliment you, Mr. Secretary, on the fine job that you are doing as Secretary of the Treasury. With relevance to our committee, I especially want to commend you for the stand you have taken with us on environmental matters in the Multilateral Development Banks. I think all of us agree that more needs to be done but we have made a lot of progress.

I might just point out, Mr. Secretary, that while control of the Senate has changed, I believe you can expect the same cooperation and nonpartisan approach that you have received in this subcommittee in the past, notwithstanding any differences that Senator Inouye and I might have or other members may have. I think that we all believe strongly in a bipartisan approach to foreign policy. I look forward to hearing your testimony.

Thank you, Mr. Chairman.

Senator INOUYE. Thank you very much.

The other Senators?

OPENING REMARKS OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, I am going to leave for another hearing, but I would like to pay my respects to the Chairman and echo the sentiments that my colleague, Mr. Kasten, has made. I have never seen a finer relationship than that between the Chairman and the ranking member. I am sure that that kind of cooperation will continue.

It is always good to see our Secretary, who has done an outstanding job as a Secretary in a troublesome area. With many of the recent developments with this Nation, the United States has an obligation to see to it that democracies within our sphere of influence are given that opportunity to work. We simply cannot turn our backs on those nations that have very real financial difficulties, notwithstanding my own feelings with respect to some of our large financial institutions, many of which are located in my own State. They have done a better job than usual, but we still have an obligation to see to it that democracy is nourished in this area. I know that that is the feeling of our Secretary.

Mr. Chairman, I know it is your feeling and you share that deep concern as well.

Senator INOUYE. Senator Specter?

OPENING REMARKS OF SENATOR SPECTER

Senator SPECTER. Thank you, Mr. Chairman. I have just a word or two.

I join in the compliments, Mr. Secretary. I agree with what Senator D'Amato has said about helping other nations in need. You have a tough job, because we also have to help a lot of Americans who are in need and many States which are in need like the State of Pennsylvania.

The issues of balancing the complex matters you have to decide on, I know, are very grave indeed. I have pursued with you in the past on many occasions and intend again today to pursue the issue as to how you balance the foreign assistance to nations which unfairly compete with U.S. industries.

While I am concerned about foreign nations like Brazil, I am more concerned about States like Pennsylvania. I personally am not satisfied to see the kind of assistance which we are rendering overseas without appropriate restraints to see to it that U.S. dollars do not unfairly compete with U.S. interests at home, that they do not subsidize unfairly foreign industries. That, in my mind, is the number one issue and that is the one I will be returning to when my turn comes.

Thank you very much, Mr. Chairman.

Senator INOUYE. Senator Nickles.

OPENING REMARKS OF SENATOR NICKLES

Senator NICKLES. Mr. Chairman, thank you very much. I look forward to working with you on this committee.

Mr. Secretary, I look forward to working with you, as well. As you might remember from a discussion that we had before the Budget Committee, I made the same comment that Senator Specter did concerning the use of U.S. tax dollars subsidizing foreign competition. My comments were directed primarily in the agricultural sector where some low-interest loans were made to Brazil and Argentina to increase their agriculture exports and some commodities that I feel are in direct competition with U.S. producers, Oklahoma producers.

I also share the concern—and I know Senator Specter is concerned about this, as well—about some low-interest loans that were made in Columbia concerning the coal project. That is over a $1 billion project. Again, coal is an item that we can export from this country, and I question the wisdom of making low-interest loans to our competitors, particularly in items that we have in surplus that we are trying to export.

Also, Mr. Secretary—and I know that you are ready for this and I look forward to your comments—you have proposed an enormous increase for Multilateral Development Banks, including an increase in the IBRD of 266 percent. I find that very hard to fathom. I look forward to your explanation.

Our banks in Oklahoma are having some very serious difficulties, as well, and I have a hard time seeing how we can justify this enormous

increase in this area. So I look forward to your statement; but I will just tell you, at least from one member of the committee—and maybe the rest of the members of the committee are sold on your program—that I remain to be convinced. I look forward to your testimony.

Thank you, Mr. Chairman.

Senator INOUYE. Thank you very much.

Mr. Secretary, being fully aware of your very tight schedule and your international traveling, without further ado I would like to call upon you, sir.

OPENING STATEMENT OF SECRETARY BAKER

Secretary BAKER. Thank you very much, Mr. Chairman.

I have, as you know, a rather detailed statement which I would ask to be inserted into the record.

Senator INOUYE. Without objection, we will do so.

Secretary BAKER. I will try to summarize it. First of all, I am delighted to be here today to discuss with you the role of the MDB's in promoting the national interest of the United States. We think it is a vital role.

Mr. Chairman, as you know, these institutions are the legacy of a group of wise men who offered exceptional leadership in the era immediately following World War II. The establishment of the Bretton Woods Institutions and their offshoots with their market-oriented focus on investment, free-trading rules and open-capital markets really was an astounding achievement if you think about it.

But it was only the beginning. Another generation of leaders labored to make these institutions effective, to make them responsive and to make them adaptive to some of the problems that we have heard here today in opening statements.

Now, it seems to me, a new generation of leaders must exert a special stewardship to keep these institutions moving forward and to ensure that their rules remain fair so as to maintain their legitimacy. The United States has to be, I think, in the forefront of this strategic change.

SUPPORT OF DEVELOPING NATIONS

These international institutions offer critical support for our program to address one of the major challenges of our age, and that is the challenge of helping developing nations grow out of past problems, including the problems of debt. Of course, success in the developing nations means a lot more than simply high gross national product statistics, and it means a lot more than simply servicing debt.

Many of the developing nations are nurturing infant democracies. Many of them are nurturing more tolerant political systems today than they were before. Someone commented here in an opening statement that it is important to the geopolitical interests of the United States that the fledgling democracies, particularly in South and Central America, survive and prosper. These people need hope to sustain their efforts.

RESULTS OF DEBT INITIATIVE PROGRAM

I think, therefore, that it is appropriate for me to start with an overview of the progress that we have made since we launched our debt initiative in Seoul, Korea in 1985. In a little over a year, many debtors have taken some very, very important steps to increase savings and investments, to improve their economic efficiency, to privatize public enterprises, to encourage the return of capital flight and to, in effect, move toward a more free-market economic system.

These efforts have been strengthened by the assistance of the multilateral institutions. The World Bank, in particular, has negotiated $2.9 billion in new policy-based loans with ten major debtors and has discussions under way on nearly $5 billion in additional policy-based loans. The IMF has negotiated new standby programs with eight of the 15 major debtors, including new loan commitments of about $4.7 billion.

I think it is fair to say, Mr. Chairman, that the commercial banks are moving now to make new loans available, as exemplified by the recent packages for Mexico and Nigeria. All of this, I think, is a good start, and we hope for further progress.

If we are going to continue to exercise leadership in addressing these problems, the United States has got to be willing to commit our fair share of the necessary resources to permit us to do this. The world, as a whole, listens to what we say, but it also happens to watch what we do.

If the United States does not back up its verbal commitments to improve the international economy, then other U.S. pronouncements and principles will be taken less seriously or they will be dismissed entirely. The word of the United States would be just that: simple words.

The MDB's are essential to our cooperative efforts to create economic opportunities in the developing nations. It is not only to the advantage of the developing countries but it is in our best interest as well that their growth is restored and that their debt problems are resolved.

I would like to say here, Mr. Chairman, that we live in an interdependent world today, more and more so with the passage of time. Millions of Americans depend on trade with these countries for their jobs and for their income.

COST-EFFECTIVENESS OF MDB'S

The MDB's are also very cost-effective, which I think happens to be a very important quality at a time of very tight budgetary constraint here in the United States. Each dollar contributed by the United States for MDB lending is multiplied roughly 16 times through the intermediation of private capital markets and the contributions of other donor countries. The cost to the United States of trying to duplicate this funding through bilateral assistance would be prohibitive.

The vast bulk of MDB lending supports nations of importance, substantial importance, to the United States. In recent years, over half of the MDB lending went to countries that we have targeted for bilateral aid. Almost an additional third of MDB funds went to nations of great strategic significance to us, nations like Mexico, Brazil and Argentina,

for example, but nations to which we simply cannot afford to give bilateral aid.

In the recent past, the United States has convinced the MDB's and other shareholders to place greater reliance on the private sector and to advocate difficult policy changes that are central elements of our debt strategy. We now want the MDB and member governments to follow through on these commitments to us. So it would not be unreasonable, Mr. Chairman, for them to expect us to meet our own commitments to them.

We also have been influential in moving the MDB's away from loans that conflict with the legitimate concerns of U.S. producers. I said we have been influential. In accord with U.S. legislation, we have informed the MDB's that we will resist projects that will promote production of commodities already in surplus or further depress world prices and injure U.S. producers.

Very few of these types of projects have been presented to the MDB's in recent years. But, Mr. Chairman, if we are to continue to have significant influence, we must support the MDB's with our full share of resources. Unfortunately, we have not been meeting our commitments and obligations.

The MDB's suffered sharp budget cuts in the last two fiscal years. Consequently, we are seeking a fiscal 1987 supplemental that clears up these shortfalls and a fiscal 1988 request that will meet our regular annual payments. We believe this budget will allow us to fulfill our leadership role, and we are seeking your support and the support of this committee.

FUNDING NEEDS OF MDB'S

Let me briefly discuss the funding needs of three MDB's in particular. Each fulfills a specialized and significant mission as an arm of the World Bank.

First, IDA, International Development Association, the soft-loan window, is instrumental in providing high-quality lending to support growth and development in the world's poorest countries, many of which are in Sub-Saharan Africa. As the members of the committee know, last year we completed negotiations for the eighth replenishment of the IDA resources. In the process, we achieved significant reforms and we attained numerous U.S. objectives.

IDA will be giving priority to Sub-Saharan Africa. Forty-five to 50 percent of the lending will be for that region so it can have a fair chance to fight back against famine, against disease and against poverty through some basic market reforms. We are seeking a U.S. contribution of $958 million for IDA VIII, and I believe this package deserves strong bipartisan support.

MULTILATERAL INVESTMENT GUARANTEE AGENCY

Second, the Administration strongly recommends the creation of the Multilateral Investment Guarantee Agency. This cost-effective operation requires authorization and the U.S. subscription of $222 million of

which only $44 million is budgeted for it. MIGA will promote reform of investment policies in developing countries, enhance the private sector's contribution to the development process, and encourage the flow of equity capital to developing countries. So it promises to be an important instrument to spur free market economic growth.

The MIGA has received widespread endorsement from the U.S. private sector, from other industrial countries and from developing nations as well. The United States played a preeminent leadership role in developing the MIGA. Many diverse nations are prepared to make MIGA operational promptly, but they are waiting for an assurance of U.S. participation. So I urge the Congress to enable us to move expeditiously to become a founding member of MIGA.

INTERNATIONAL FINANCE CORPORATION

Finally, the International Finance Corporation, or the private-sector unit, emphasizes strength in private-sector development, direct investment, capital market development, and mobilization of domestic savings. It serves really as a vital catalyst, acting as a minority partner in the financing of investment projects and bringing together technical management and capital resources.

However, the United States is behind in making its capital payments to the IFC. For it to be fully effective, the United States must shoulder its share of the financial backing for the IFC.

In closing, Mr. Chairman, let me try to put our request in perspective, if I might. I recognize that the MDB's—and we have heard to some extent a reference to that here this morning—do not have a strong national constituency to press for financing through the give and take that characterizes the normal appropriations process.

I know that there is a strain of American political culture that distrusts international multilateral institutions. There are, however, other resilient American traditions which I think are worthwhile considering.

First, we always have been proud of the American experiment and the model that that experiment offers to other nations. Today, the MDB's are helping us to promote market oriented solutions around the world. This is our model, and we should not let it fail for lack of our commitment.

Second, Americans are a pragmatic people. We rely on tools that work. The MDB's are efficient and they benefit the United States. Our contributions to the MDB's are repaid in numerous ways.

The MDB's also operate effectively in a complex world, in part because their multilateral nature enables them to take actions that would be resisted if the United States pursued these actions unilaterally. And where MDB operations need reform, as some definitely do, I think it is fair to say that we are making substantial progress.

Third, the United States meets its obligations. We always have. And because we do, we can better persuade others to meet their obligations. Our national self-respect and our international leadership depend on our willingness to fulfill this responsibility. In today's international en-

vironment our leadership is as important, if not more important, than ever.

I appreciate that the Congress faces difficult choices in the appropriation process. As you proceed, I urge you to recall how important the MDB's are to America's long-run success and our own economic interests. I will assist you, Mr. Chairman, to the very best of my abilities. Thank you.

[The prepared statement of Secretary Baker follows:]

PREPARED STATEMENT OF HON. JAMES A. BAKER, III

SECRETARY OF THE TREASURY

Mr. Chairman and Members of the Committee:

It is a pleasure to meet with you today to discuss the vital role the multilateral development banks (MDBs) play in promoting U.S. national interests in international economic affairs.

The Importance of Multilateral Development Banks to the International System

To place the Administration's budget request in perspective, it may be useful to recall the reasons these institutions were formed, why the United States actively supported their creation, and why we continue to support them.

They were, of course, a response to the international economic system between the two wars. Many governments, including the United States, contributed to a deeper and longer world-wide depression in the 1930's by adopting isolationist economic policies. In an effort to stimulate domestic demand and employment, governments erected high tariffs and other barriers to protect their domestic producers from imports. They also undermined currency arrangements in an attempt to promote exports and generate jobs. These autarkic actions choked off international trade and capital flows.

The United States and its industrialized trading partners eventually recognized the self-destructiveness of these protectionist policies. The "wise men" of the era exerted extraordinary leadership to help create exceptional international rules and institutions. Their aim was to promote a more open international economy to recapture the higher living standard that trade and market driven investment make possible. Their products were the Bretton Woods Institutions -- the World Bank and International Monetary Fund (IMF) -- and later, the General Agreement on Tariffs and Trade (GATT) and the regional MDBs.

The establishment of these institutions and the international rules they embody was an astounding accomplishment -- an historical watershed. But it was only the beginning. Another generation of leaders labored to make these institutions effective, responsive, and adaptive to new problems. Now, the next cadre must exert novel stewardship to keep these institutions moving forward and to ensure that their rules are operated fairly so as to maintain their legitimacy. The United States must be in the forefront of this strategic change.

As you know, in the first decades or so after World War II the United States carried much of the burden of promoting a liberal, open economic trading system. We instituted the Marshall Plan because the World Bank and IMF were too small and too new to deal with postwar reconstruction. The United States gave Europe and Japan time to phase out most of their quotas; U.S. foreign aid dwarfed that of the other countries

capable of providing bilateral assistance; and the United States was a major market as war-torn countries restored their economic footing (although our trade was in surplus). Yet few would seriously argue that the benefits to U.S. national interests -- through higher living standards, expanded trade, and increased security resulting from the participation of sovereign states in a Western-led trading and monetary system -- did not heavily outweigh the costs.

Over past decades, largely at U.S. prompting, Europe and Japan have assumed a larger share of the financial burden of making the international economic system work; they have demonstrated a willingness to work cooperatively to try to secure balanced growth and prosperity. But they can and will do more if we can foster the proper incentives and spirit.

Over the past year and a half we have enhanced multilateral cooperation considerably. We have put in place new arrangements for closer economic policy coordination. We are making progress towards achieving increased and more balanced growth, as well as smaller trade imbalances. And we are implementing our debt strategy through close cooperation among debtor developing countries, the international institutions and the commercial banks. These mutual efforts -- and the U.S. leadership that drives them -- must continue and be extended if we are going to resolve the problems confronting the international economy.

The Debt Strategy: A Progress Report

Economic conditions in the industrialized countries (particularly the United States) have an enormous effect on the economies of developing nations. Conversely, their activity has an enormous impact on us. Restoring growth and resolving the debt problems of developing countries would bolster their capacity to import from the United States and others. But the success of the developing countries involves much more than high GNP statistics and servicing debt. Many are nurturing infant democracies and more tolerant political systems. Their people need support to sustain their efforts.

The Program for Sustained Growth represents the best hope for debt-burdened nations. Developing countries recognize the opportunities the strategy presents and are taking significant steps to reform their economies. The debt problems of these countries took years to develop; the solution will also take time. Nevertheless, we have achieved much in the last year and a half.

- Many debtor nations have taken important steps to increase domestic savings and foreign and domestic investment. They are also improving economic efficiency by privatizing public enterprises and encouraging the return of flight capital.
- The IMF has negotiated new standby programs with 8 of the 15 major debtors since October 1985, including new loan commitments of about $4.7 billion.
- The World Bank has negotiated $2.9 billion in new policy-based loans with 10 major debtors, and has discussions underway on nearly $5 billion in additional policy-based loans. Aggregate World Bank loan commitments to these debtors increased

by 40 percent during its Fiscal Year 1986, and a substantially larger share of loans are now based on structural policy reforms.

- The commercial banks are also moving to make new loans available, as exemplified by the recent $7.7 billion package for Mexico, a $320 million new money package for Nigeria, and a $220 million oil facility for Ecuador. Nearly $70 billion in debt reschedulings have been negotiated with the major debtors since October 1985. A number of other financing packages and reschedulings are also now under discussion.

Interest rates are down nearly 5 percentage points since 1984, saving the major debtors over $13 billion in interest payments annually. Efforts are underway to achieve stronger growth in other industrial nations, and to open global markets through another round of multilateral trade negotiations.

This is a start -- a good one. We hope for further progress. But we must be realistic -- we must recognize that improvements will take time and will vary among nations. Their pace depends upon their own determination to implement growth-oriented reforms and the continued active support of the international community.

The essential point is that the programs the United States has proposed to address the problems confronting the international economy are working. However, if the United States is to continue to lead, if we are going to continue to address these problems, we must be willing to commit our fair share of the necessary resources.

Funding for International Affairs Is Important

The foreign affairs (or 150) account in the U.S. budget does not have large assemblies of vocal U.S. supporters because the effects on Americans seem less immediate and direct than those of domestic programs. But the domestic benefits of foreign affairs expenditures and funding for multilateral institutions are very real.

Countless American jobs and exports depend on the health of overseas markets. Countless more could be created if sustained growth and political stability take root in the developing countries.

Support for the foreign affairs account is also an important element of our efforts to secure global political and economic alliances. We cannot continue to renege on our international financial responsibilities and retain our position of global leadership. If we -- as a nation -- fail to support our own programs, and ignore or delay meeting our international commitments, the damage to U.S. national and economic security may be vast; that harm will not easily be undone.

It is in our own interest to continue to play a guiding role. To do so, we must provide adequate funding for foreign assistance. We have submitted a 150 account budget request that we believe will allow us to fulfill that role. We are seeking your support.

The MDBs and U.S. National Interests

In FY 1985 Congress appropriated $1.5 billion for the MDBs. Last year the Administration established $1.4 billion as its target for annual MDB funding through 1991. However, our requests for FY 1986 and FY 1987 were significantly reduced by the Congress. These funding shortfalls represent international commitments which we cannot, and others will not, ignore.

It is very important to restore U.S. shortfalls to the MDBs quickly. The world listens to what we say -- but it also watches what we do. If the United States does not back up its verbal commitments to improve the international economic system by providing the necessary resources, then other U.S. policy pronouncements and principles will be taken less seriously. We will damage our credibility and eventually our national interest. The word of the United States will be just that -- words.

The United States has convinced the MDBs and other shareholders to place greater reliance on the private sector and market forces, and to pursue difficult policy changes. These policy reforms are the central elements of the American strategy to promote stronger growth in debtor countries. These nations need to resolve their debt problems if they are going to be able to increase their imports from the United States. We want the MDBs and member governments to follow through on the commitments they have made to us. It would not be unreasonable for them to expect the same from us.

The MDBs are also cost effective -- a very important quality at a time of tight budgetary constraints. The MDBs are now lending funds at the rate of about $22 billion annually, based on an average annual U.S. contribution of about $1.4 billion. That means U.S. dollars are multiplied roughly 16 times through the intermediation of private capital markets and the contributions of other donors. The cost to the United States of trying to duplicate bilaterally what is achieved through the MDBs would be prohibitive.

Furthermore, the MDBs have proven to be good customers -- and consumers -- of U.S. goods and services. Each year U.S. businesses receive procurement contracts from the MDBs equal to our budget expenditures for these institutions.

The vast bulk of MDB lending supports countries of importance to the United States. In recent years, 54 percent of MDB lending went to U.S. bilateral aid recipients. Another 32 percent was devoted to countries that matter a great deal to the United States geopolitically, but that do not receive U.S. bilateral aid -- such as Argentina, Brazil, and Mexico.

In accord with U.S. legislation, we have informed the MDBs that we will resist projects that will promote production of commodities already in surplus, further depress world prices and which are injurious to U.S. producers. Our actions have been influential. Very few of these types of projects have been presented to the MDBs in recent years. We must recognize, however, that our influence is weakened when we argue in a manner that is perceived as purely protectionist by the other member nations. If our colleagues conclude that our comments on loans for sensitive commodities are

politically driven, they will not seriously examine our criticisms on their merits. Other members will conclude that if the United States can use the MDBs for political purposes, they can do so too. We would undermine the MDBs and subvert a key principle guiding the Bretton Woods Institutions -- the allocation of production based on economic efficiency.

World Bank Group

The World Bank, as you are all aware, has been playing a lead role in the debt initiative. The various arms of the World Bank group -- the International Development Association (IDA) soft loan window, the International Finance Corporation (IFC) private sector unit, and the newly created Multilateral Investment Guarantee Agency (MIGA) -- each fill a specialized and significant mission. As the largest shareholder, U.S. support for the IBRD is crucial to the continued pursuit of reforms which are integral to the debt strategy.

1. IDA VIII

As members of the Committee are aware, last year we completed negotiations for the eighth replenishment of International Development Association (IDA) resources. We were able to achieve an IDA VIII replenishment of about $12.4 billion along with significant reforms. We are seeking a total U.S. contribution for IDA over three years of $2,875 million, or $958.3 million annually. While this request is large, the U.S. share has declined from 42 percent of the initial subscription in 1961, and a 25 percent share in IDA VII, to around 23 percent in IDA VIII. In IDA VIII we managed to negotiate increased contributions by Japan, Canada, and Italy.

Our IDA VIII negotiations also achieved a number of objectives important to the United States:

-- priority will be given to Sub-Saharan Africa, with between 45-50 percent of IDA VIII lending targeted for that region;

-- IDA maturities will drop from 50 years to 40 years for the least developed IDA recipients and to 35 years for all other recipients;

-- future IDA credits will include provisions for adjusting the terms of loans, including the possibility of interest charges to reflect changes in individual country circumstances; -- greater emphasis will be placed on conditionality and performance as a criteria for lending;

-- at least $3 to $3.5 billion of IDA VIII will be used for adjustment lending, which will foster the ability of IDA recipients to achieve sound, sustainable growth.

-- IDA VIII lending to India and China will be at least as large as under IDA VII, and may be larger given the IDA VIII increase;

-- Management will increase attention to environmental concerns; and

-- If currently depressed prices or expected declines in prices of agricultural commodities will reduce project returns below minimum levels, IDA will not lend for increased production.

Much of IDA's structural adjustment lending will be in the context of the new IMF/World Bank policy framework program. Under this program, a single comprehensive package will address the macro-economic and structural needs of the lowest income countries. The recipient country, the IMF and the World Bank negotiate medium-term economic plans supported by the lending arrangements of the IMF Structural Adjustment Facility, IDA VIII and bilateral aid agencies (coordinated by the World Bank). This new program should greatly increase the efficient management of developing economies and offers a real chance to facilitate growth in these countries.

Many of IDA's traditional supporters are concerned that structural adjustment lending programs may harm the poor. We believe that those most in need will benefit from policy changes to improve incentives and reduce economic distortions, which tend to discriminate against them. Failure to adjust will prevent the poor from ever having an opportunity to improve their livelihood.

The social costs, institutional and political difficulties, and financial requirements to make needed policy changes and sustain the adjustment process are indeed extensive. It represents an enormous challenge, but one that must be undertaken to establish the foundation for ongoing expansion. And the IBRD management is strongly committed to measures to ease the transition costs of adjustment.

During the IDA VIII negotiations, Japan stressed that its significant contributions to IDA had not been matched by its capital shares in the IBRD. To achieve a larger Japanese contribution, we agreed to cede a small portion of our IBRD shares -- if the World Bank's Articles of Agreement were changed to require an 85 percent voting majority for changes in the Articles as compared to the current 80 percent test. A similar change was made in the IMF Articles of Agreement at the time of the quota increase for the Fund in 1976. In addition, we pressed the Japanese to assume a more contributory international position, including:

-- follow-through on agreements reached at the Tokyo Summit;

-- steps to stimulate their domestic economy;

-- actions to open their economy to exports from developing countries, particularly to give the Newly Industrializing Countries (NICs) more access to Japanese markets;

-- achievement of an agreement on mixed credits; and

-- a supplemental contribution to IDA VIII beyond their 18.7 percent share.

The United States and Japan reached a tentative understanding on these issues during the IDA VIII negotiations. Italy and Canada also asked for, and received, increases in their IBRD shares in exchange for an increase in IDA VIII contributions. As a result of these negotiations, the United States will relinquish rights to about 2 percent of our shares for purchase by Japan, Italy, and Canada -- while retaining our veto authority over Article changes. The Board of Directors and Board of Governors of the World Bank will be addressing these issues in the next few months.

In sum, IDA VIII will provide efficient, high quality lending in support of growth and development in the world's poorest countries, many of which are in Sub-Saharan Africa. IDA maximizes the use of scarce concessional resources for development. It is a sound, cost effective vehicle for assisting countries where we have strong strategic, economic, and humanitarian interests.

In my view, the timing of this replenishment is critical, given the troublesome development prospects of some of the poorest nations, particularly in Africa. It could offer a key signal to the people of Africa that the United States is committed to significant, market-oriented reforms of their economies -- so that they can reverse declining trends and have a fair chance to fight back against famine, disease, and poverty.

IDA VIII offers a valuable opportunity to support the adjustment process in developing countries. A growing number of nations are realizing the importance of market forces and incentives to to the restoration of growth. The chief strength of IDA is its ability to encourage such reforms while coordinating and catalizing other sources of finance to promote growth, development, and stability in the developing world.

This is an excellent package, and I urge strong bipartisan Congressional support.

2. Multilateral Investment Guarantee Agency (MIGA)

The Administration strongly supports the creation of the Multilateral Investment Guarantee Agency (MIGA). In association with the World Bank, MIGA will promote reform of developing countries' investment policies, enhance the private sector's contribution to the development process, and encourage the flow of equity capital to developing countries.

Due to its multilateral nature, MIGA will be better positioned to promote structural reforms than OPIC or other national insurance agencies. MIGA will be a small, cost effective operation requiring little funding. In return we will secure an important new instrument for promoting an improved international economy.

The United States played the preeminent leadership role in negotiating the MIGA Convention; we wanted to ensure that this institution would be effective. A broad cross-section of industrial and developing countries are prepared to make MIGA operational promptly -- but only after U.S. participation is assured. Delay by the United States could possibly derail the organization.

Thus, the Administration is seeking authorization and full

funding of U.S. membership in the FY 1988 Budget. The $222.0 million U.S. subscription is 20.5 percent of the total. It includes $44.4 million of budget authority, of which $22.2 million would be cash outlays and $22.2 million would be in the form of non-negotiable, non-interest bearing promissory notes. The remainder of the Administration's request is for $177.6 million of callable capital under program limitations. I want to emphasize that this is a one year appropriation; we do not envisage additional budget requests.

MIGA has received broad endorsement from the private sector. In view of the large benefits we anticipate, particularly when compared to its relatively modest cost, I urge that the Congress enable us to move expeditiously to become a founding member of MIGA.

3. International Finance Corporation

The International Finance Corporation specializes in promoting economic growth through market-based activities in support of the private sector. The IFC serves as a vital agent for change, acting as a minority partner in the financing of investment projects and bringing together technical, management and capital resources.

The IFC places particular emphasis on expansion of the private sector in the least-developed countries, with a special focus on Sub-Saharan Africa. It also performs an increasingly important function in heavily indebted middle-income countries through its capital market activities -- which seek to improve the functioning of domestic financial markets and develop institutions to mobilize savings.

IFC's corporate restructuring initiative -- which provides financing and technical assistance to basically sound companies suffering from high-cost debts and shifting markets -- is also important to these countries. The IFC, like MIGA, emphasizes and supports the fundamental features of our growth strategy: a strengthened private sector; increased direct investment; the development of efficient local capital markets; and the mobilization of domestic savings. But the United States is behind in its capital payments to the IFC. If the work of the Corporation is to proceed apace, the United States must provide its share of the Corporation's financial backing.

The Fiscal Year 1987 and 1988 Budget Request

We are seeking an FY 1987 supplemental and FY 1988 request which will both meet our shortfalls and fulfill our regular annual payment responsibilities. We are requesting $1.8 billion for the MDBs in FY 1988, along with an FY 1987 supplemental request of $293 million, for a total of $2.1 billion.

These funding proposals reflect both the need for budgetary restraint and the financial requirements for effective development programs. Our MDB request for fiscal years 1987 and 1988 is composed exclusively of funding requirements negoriated by the Admionistration in close consultation with this Committee.

International Bank for Reconstruction and Development(IBRD)

For the IBRD in fiscal year 1988, the Administration is requesting: 1) $58.6 million in budget authority and $664.7 million under program limitations for subscriptions to the final installment of the 1981 GCI; 2) $131.4 million in budget authority and $1.370.8 million under program limitations for subscriptions to the IBRD's 1984 Selective Capital Increase (SCI); and 3) $14.8 million for paid-in capital subscriptions and $133.6 million for callable capital subscriptions subject to program limitations to the 1970 SCI.

International Development Association (IDA)

In our supplemental request for fiscal year 1987, the Administration is seeking $207.5 million to complete the U.S. contribution to the seventh replenishment. For fiscal year 1988, the Administration is requesting $958.3 million for the first installment for the $2,875 million U.S. share of the $12.4 billion eighth replenishment.

International Finance Corporation (IFC)

In our supplemental request for fiscal year 1987, the Administration is seeking $42.2 million to complete the second and to make the third of five installments on the U.S. subscription to a $650 million IFC capital increase unanimously approved by the IFC Executive Board in June 1984. For fiscal year 1988, the Administration is seeking $35.0 million for the fourth installment.

This capital increase supports the IFC's five-year plan for the period FY 1985-1989; it is consistent with the direction and emphasis the United States has encouraged the IFC to take, including a special program to promote entrepreneurs in Sub-Saharan Africa.

Multilateral Investment Guarantee Agency (MIGA)

As mentioned above, for fiscal year 1988, the Administration is requesting $44.4 million in budget authority and $177.6 million under program limitations for the U.S. subscription. Of the budget authority, half ($22.2 million) will be paid in cash and half will be in the form of non-negotiable, non-interest bearing promissory notes that will be treated like callable capital.

Inter-American Development Bank (IDB)

For fiscal year 1988, the Administration is requesting 1) $63.2 million in budget authority and $119.4 million under program limitation to complete the sixth replenishment, and 2) $57.9 million in budget authority and $2,257.3 million under program limitations for the first installment of the seventh replenishment.

Fund for Special Operations (FSO)

For fiscal year 1988, the Administration is requesting 1) $89.5 million in budget authority to complete the sixth replenishment, and 2) $20.6 million for the first installment of the seventh replenishment. The FSO replenishment

is designed to address the long-term development needs of the poorest countries in Latin America, primarily in Central America and the Caribbean.

Inter-American Investment Corporation (IIC)

For fiscal year 1988, the Administration is seeking 1) $14.8 million to complete the second and make the third of four installments to the IIC; and 2) $12.0 million for the fourth installment. The Administration strongly supported establishing the IIC as a practical means of enhancing the capacity of the IDB to aid the private sector in borrowing countries. The investment program will provide loans and equity participation for small- to medium-sized privately controlled firms in Latin America and the Caribbean.

Asian Development Bank (ADB)

For fiscal year 1988, the Administration is seeking $15.0 million in budget authority and $276.5 million under program limitations to complete the 1983 General Capital Increase. The ADB is a key institution in one of the most economically dynamic and politically sensitive regions of the world. Active and positive U.S. participation has served U.S. interests.

Asian Development Fund (ADF)

For fiscal year 1988, the Administration is requesting 1) $72.9 million to complete the third replenishment, and 2) $146.1 million to make the first of four installments on the fourth replenishment. U.S. support benefits the people of such countries as Bangladesh, Pakistan and Sri Lanka, as well as many of the strategic island countries in the South Pacific.

African Development Bank (AFDB)

In a supplemental request for fiscal year 1987, the Administration is seeking $6.5 million in budget authority and $17.4 million under program limitations to complete the initial U.S. subscription to the AFDB. For fiscal year 1988, the Administration is requesting $9.0 million in budget authority for subscriptions to paid-in capital and $134.9 million under program limitations for callable capital for the first of five installments to increase the Bank's capital base.

The AFDB is an important part of the U.S. commitment to work with the countries of Africa for the achievement of their long-term development objectives.

African Development Fund (AFDF)

In a supplemental request for fiscal year 1987, the Administration is seeking $36.6 million to complete the second of three installments for the U.S. contribution to the fourth replenishment. For fiscal year 1988, the Administration is seeking $75 million in budget authority to complete the U.S. contribution. AFDF lending will continue to be focused on agriculture, with 40 percent of the replenishment resources going to this sector. The remainder of AFDF lending will go

to high priority projects for transportation, health, education and water supply.

Tied Aid Credit War Chest

In addition to our MDB requests, we are seeking $200 million for the "War Chest" that was authorized by Congress in the 1986 amendments to the Export-Import Act.

Tied aid credits and partially untied aid credits offered by the governments of other countries are a predatory means of financing exports. These practices have caused the United States to lose export sales. To the extent that these practices divert aid funds from legitimate development assistance, they also impede the growth of developing countries.

At the January OECD negotiations, the vast majority of countries in the OECD Export Credit Arrangement, including the United States and the European Communities, agreed ad referendum to a substantial increase in discipline over tied aid and partially untied aid credits. Participants must give their final response to this proposal by March 15, 1987.

Conclusion

I recognize that the MDBs do not have a strong national constituency to press for financing through the often difficult give-and-take that characterizes our appropriations process. And I know there is a strain of the American political culture that distrusts international multilateral institutions. These factors do not make it easy for some legislators to support the MDBs.

There are, however, other resilient American traditions that counterpoise this negative force. First, we always have been proud of the American experiment and purposeful about the model it offers other nations. Today the MDBs are helping us to promote market-oriented solutions to major problems around the world. This is our model; we should not let it fail for lack of our commitment.

Second, Americans are a pragmatic people. We rely on tools that work. The MDBs are efficient and benefit the U.S. -- our contributions go a long way. The MDBs also operate effectively in a complex world, in part because their multilateral nature enables them to take actions that would be resisted if pursued by the U.S. unilaterally. And where MDB-operations need reform -- as some definitely do -- we are making substantial headway.

Third, the United States meets its obligations. (And because we do, we can better persuade others to meet theirs.) Our national self-respect and our international leadership depend on our willingness to fulfill this responsibility. In today's international environment, our leadership is as important as ever before.

I appreciate that the Congress faces difficult choices in the appropriations process. As you proceed, I urge you to recall how important the MDBs are to America's long-run success and our own economic interests. I will assist you to the best of my abilities.

FISCAL YEAR 1988 BUDGET OF MDB

Senator INOUYE. Thank you very much, Mr. Secretary.

I would like to begin by asking certain basic questions. I noted in your prepared remarks that you very correctly noted that in the past 2 fiscal years, 1986 and 1987, we significantly reduced the commitment which you indicate we cannot and others will not ignore. I am just curious to learn whether you have found our congressional budget committees receptive to this argument that we cannot and others will not ignore these international commitments.

I ask you this because the ability of the subcommittee to respond to your request will have to be limited by actions of the budget committees, and I am certain you realize that they will be marking up their bills soon. I hope that you will be making a special appeal to them on the MDB funding.

The members of the Senate have received copies of the report of the CBO, an analysis of the President's budgetary proposal for fiscal year 1988. I am certain you have received this also. In that volume, we find that the Congressional Budget Office did not include increased funding in its base line for fiscal year 1988. I think this is significant because the budget committees will be using the CBO base line as the starting point.

The CBO said this about funding of the MDB's, and I would like to quote this:

> Congress has sharply reduced subscriptions and contributions to the Multilateral Development Banks for the last several years. These reductions are reflected in the CBO base line because it projects appropriations to increase over 1987 levels only at the rate of inflation.

MDB BUDGET AT FISCAL YEAR 1987 LEVEL

Senator INOUYE. So here we find CBO just about recommending to the budget committees that you leave it at last year's rate plus inflation and no more. In this case, we have a situation where the administration is requesting an increase of $2.5 billion for that area over which we have jurisdiction, and we are in a quandry because the Budget Committee comes out with a small increase, and that is the cap.

Secretary BAKER. Mr. Chairman, let me simply say that in both of my appearances before the House and Senate budget committees we have spoken—I think this is correct—specifically to the MDB's in those presentations. We have told them how important we think this is. We have spoken to the issue that my summary statement addresses this morning, and that is that to some extent our request this year is to make up a significant shortfall in prior years.

IDA VIII CONTRIBUTION INCREASE

We have discussed, and I am prepared to discuss here this morning, the increased IDA VIII contribution which we are requesting, which is a significant element of this package. I can only tell you that we think this is an extremely important matter as far as our leadership in interna-

tional economic policy is concerned and an important matter as well in terms of the United States meeting its commitments and keeping its word.

Senator INOUYE. I believe the majority of this committee would be most responsive to that argument. But as I indicated, our hands are going to be tied by the CBO and by the budget committees.

In addition to that, as I noted, the administration is requesting an increase of $2.5 billion in that area over which we have jurisdiction, while at the same time we are faced with this Gramm-Rudman-Hollings requirement of cutting the total budget $60 billion.

As Secretary of the Treasury, do you have any suggestions as to how we can make up this funding? This is not the most popular subcommittee when it comes to funding, as you know.

Secretary BAKER. No, sir, it is not, and I am well aware of that, having served in this present post for 2 years now. The President's budget contains measures which I think it would be appropriate to look to to achieve the necessary funding. I realize that there is a difference of opinion between the administration and some here on the Hill with respect to the revenue side of the President's budget.

But for the first time, Mr. Chairman, we are submitting a budget that calls for more by way of deficit reduction in revenues than in spending reductions. I think we asked for about $22 billion of deficit reduction on the receipt side of the ledger. I think we should take a hard look at those areas in order to generate the necessary funds to meet our international commitments, commitments made in good faith after consultation with the Congress.

If we continue to fail to meet international commitments arrived at in good faith, the stature and the standing and the reputation and the credibility of the United States will decline. So my suggestion is: let's look at those elements of the President's budget, particularly on the revenue side, that some here have a tendency simply to discard and put off to the side because they do not constitute the types of revenue measures that some think would be more appropriate.

SUSPENSION OF BRAZILIAN DEBT PAYMENTS

Senator INOUYE. In the last few days the front pages of our papers have not been too responsive, I would think, to some of your deep concerns. At least that is the interpretation some will be getting. For example, we have in this morning's paper the announcement of February 20 of Brazil, the largest debtor in Latin America, announcing an indefinite suspension of interest payments on the $108 billion it owes foreign lenders.

Can you tell us how much of this debt is held by U.S. creditors, public and private, and what the implications of these announcements will be to the United States?

Secretary BAKER. I will get you the percentage, Mr. Chairman, but let me say this. We regret the fact that Brazil found it necessary to take this action that we regard as temporary, and we feel sure that the mat-

ter will be ultimately resolved through Brazil's negotiations with its private creditors.

Brazil has just recently concluded, as far as its official credits are concerned, a rescheduling with the Paris Club. So the announcement does not run to official credits. Furthermore, the announcement does not say that they will not pay. It simply says that their reserves are so low that they cannot pay now. So we feel confident that the matter will be resolved through negotiation between Brazil and its private creditors.

I will get you the exact percentage breakdown between private credits and official credits here in just a moment.

EFFECT OF BRAZILIAN ACTION ON U.S. BANKS

Senator INOUYE. Will this have any effect on our commercial banks?

Secretary BAKER. It would have an effect if it ended up being something that was permanent, Mr. Chairman, or if it ended up extending, as well, to principal payments. It would have a detrimental effect on our banks if it were not resolved through negotiations between Brazil and its creditors. But as I have said earlier, we are quite confident that the matter will be resolved in the context of negotiations between Brazil and its private creditors.

Senator INOUYE. Is there any danger that the Brazilian action will have some impact upon other debtors in Latin America? Do you think that there is a danger that the Brazilian action will be followed by similar suspensions by Latin American debtors? I ask this because I gather that the Argentinian finance minister is now in Sao Paulo and apparently discussing the moratorium.

SITUATION IN ARGENTINA

Secretary BAKER. I do not think I would necessarily agree with that conclusion, Mr. Chairman. The Argentinian situation is different. They have given every indication here recently of wanting to handle their debt problem in the moderate and nonconfrontational manner that they handled it the last time it came up for renewal. They give us every indication that that is the way they would like to approach it now.

While we are concerned about it, as I expressed in my original answer, we do not see this as something that is going to spread to a whole lot of other debtor countries. We are on the verge, as you know, of wrapping up a rather major new credit arrangement for Mexico involving some $7.7 billion of new commercial lending. And each of these countries is in a somewhat different position, different economic position, and different position with its creditors.

The thrust of our debt strategy is that these matters should be addressed on a case-by-case basis. That has been the case since 1982, and for the most part it has worked extremely well. There are some debtors, such as Peru, who have basically defaulted on their debt.

But the major debtor countries, for the most part, have handled the matter in a responsible way and in a nonconfrontational way, recognizing, as I think they do, that there is no way in which they can generate

the economic growth which is required to earn their way back unless they have assurance of some capital flows, equity and/or debt. And if they cut themselves off from the private markets, private credit markets, there will be no assurance of additional capital flow.

SOUTH AMERICAN COOPERATION WITH U.S. DEBT STRATEGY

Senator INOUYE. Notwithstanding the Brazilian moratorium and the Ecuadorian moratorium also and the possibility of the Argentinian moratorium, do you believe that these countries are cooperating with implementing your debt strategy?

Secretary BAKER. Do I think that they have been cooperating in implementing?

Senator INOUYE. Yes.

Secretary BAKER. Yes, sir. Ecuador is an excellent example of a country that has been doing that. It has adopted the free market types of economic reforms that we have suggested as being the best approach. Brazil, as well, has adopted some of those reforms. So has Argentina.

But the debt proposal, of course, is comprehensive and it requires not only reforms in debtor countries; it requires additional multilateral financial institution lending and it requires additional commercial bank lending. It is a problem, Mr. Chairman, that did not occur overnight. It took us 10 years plus to get into this situation. And it is not a problem that is going to be resolved overnight.

But the only way it is going to be resolved is on a case-by-case basis, on a basis that emphasizes growth as the fundamental way that these nations are going to earn their way back.

Senator INOUYE. Then would I say that your message to our commercial banks would be not to panic, just to hang on because we are confident?

Secretary BAKER. Clearly not to panic; this is not a situation that has not occurred before. The Brazilians have made it quite clear in their announcement that they are looking forward to negotiating with their private creditors, and the Argentinians have said exactly the same thing. Those negotiations are in the process of beginning.

As I indicated in my first answer to your question, I feel confident that the matter will be resolved through the context of those negotiations.

Senator INOUYE. Thank you very much, Mr. Secretary. Before proceeding, I would like to announce that we will be following the 10-minute rule, and I will be calling upon members as they report to this hearing.

Senator Kasten?

ENVIRONMENTAL CONCERNS OF WORLD BANK

Senator KASTEN. Mr. Chairman, thank you very much.

Mr. Secretary, I want to talk for a moment about the environmental concerns in the World Bank in particular and also the Multilateral Development Banks in general. Do you think that the World Bank has made sufficient progress toward implementing the U.S.-backed environ-

mental reforms, progress significant enough to justify a full U.S. replenishment for this year?

Secretary BAKER. Senator Kasten, the World Bank was in the midst of a study of its approach to environmental issues when the new president of the bank ordered a more comprehensive study that would include environmental issues along with other issues. That study is in the process of being conducted.

I do believe this. I think there is a new awareness at the World Bank of the importance of environmental concerns. I myself have personally discussed this with Barber Conable. He knows that there is a new awareness and sensitivity and concern at the U.S. Department of the Treasury about environmental matters.

It is something that I believe in very strongly, and I have made my views known not only to our people at Treasury but to Barber Conable as well. I think that they are making good progress at the World Bank in addressing those concerns.

Senator, I should conclude that answer by saying that your efforts in this committee, starting when you were chairman of the committee, have been in my view largely responsible for the greater attention that is being now made to environmental matters in connection with World Bank lending.

Senator KASTEN. Mr. Secretary, first of all, thank you. This is one of the many issues that the Senator from Hawaii and I are going to be working on together, and I appreciate your help and support.

I am concerned. We got a copy of the progress report which all of you put together, I guess, about a month ago. In the progress report you did list the fact there was inadequate progress in utilizing professionally trained environmental staff in decision making, inadequate monitoring of ongoing loans to assure contract compliance in environmental protection and the fact that the IDB, Inter-American Development Bank, has failed to even establish an office responsible for environmental review. I look forward to working with you on some of these questions.

Now, on the other issue of this reorganization, as I understand it, the bank did an inhouse review of the environmental capabilities. That report, which has not been released, has indicated, I understand, that major environmental deficiencies did exist and do exist. Evidently, those reforms have been put aside pending the overall comprehensive structural reform that Barber Conable and others are bringing forward.

What I would like to emphasize is that a large number of the environmental reforms can go forward. They have already determined what they need to be doing. They can go forward without waiting for this overall structural reform.

So could you comment on the progress of the World Bank's reorganization and the environmental reforms that you are aware of which will be instituted as part of this overall reorganization?

Secretary BAKER. Senator, as I indicated earlier, they have basically put the environmental reorganization part on hold until they complete

their study of the reorganization of the bank as a whole. And that is understandable, I think, because they might and undoubtedly will be talking about recruiting people. It is hard to recruit people unless they know what their reporting lines are and what their responsibilities are and that sort of thing.

So it does not trouble me particularly, that they are going to have the environmental reorganization released and implemented as a part of an overall reorganization of the bank. I think if I were president of the World Bank, I would want to do it all at once also.

Now, I know you regret the delay in implementing some of the provisions of the environmental reorganization or environmental report. So do we. But it is very difficult, I think, to second-guess the bank on this when they have an overall comprehensive reorganization program that they are dealing with.

So what we are going to do is encourage them to complete the whole thing just as rapidly as possible.

Senator KASTEN. First of all, Mr. Secretary, we agree on most of these issues, but the bank does not always agree with us and some of the donor nations do not always agree with us. We just do not want to look at this whole operation as, in a sense, being put aside and shelved. If it is in effect being delayed and they are going to go forward with it, that is what we want to do.

All of us are concerned, as we wait with these delays, that frankly there is environmental damage going on every day. There are still projects—we are going to talk about a couple in a moment—which are going on and are having a negative effect. The faster these reforms get in place, the better chance we are going to have to have a thorough review process and keep these environmentally damaging projects off the books and stop those that are continuing to, I think, have disastrous environmental and long-term economic consequences.

Secretary BAKER. I quite agree with you. At my request of the new chairman of the development committee, we will be discussing environmental concerns as a part of the development committee meeting in April, because we think it needs to have greater visibility and it needs to be higher up on the agenda of all of the member countries.

I might say that we are also having some success, Senator, in getting greater cooperation from some of the donor countries. The Nordic countries have been particularly vigorous. And we have now got support from the British, the French, the Germans, the Canadians and the Italians for our position of concern respecting environmental issues. So I think we are making progress.

I know this: there has been an absolute sea change in attitudes since 1983 when all this started, as I said, much at your suggestion and your insistence.

CATTLE-LIVESTOCK PROJECTS IN AFRICA

Senator KASTEN. Mr. Secretary, last year you took a bold step in rewriting U.S. policy on potential cattle-livestock projects in semi-arid regions of Africa. In effect, we really toughened U.S. policy to provide

greater environmental protection. The World Bank is continuing to support a massive cattle program in Brazil right now. That loan is being criticized and has been criticized for destroying huge wildlife areas and causing massive soil erosion.

But I think all of us are particularly concerned about Botswana. Could you update us on the progress of the Botswana-III loan? Is Treasury satisfied with the execution of this loan? Or is this now unacceptable in terms of the environmental damage that is occurring? The information that we have is that this project is in a real mess right at this moment.

Secretary BAKER. Senator, which loan is this?

Senator KASTEN. Botswana-III.

Secretary BAKER. Is III the abattoir loan, Senator?

Senator KASTEN. Yes, Mr. Secretary.

Secretary BAKER. We have instructed our executive director to vote against that, to oppose that loan. I met with the vice president of Botswana when he was in town several months ago seeking to express his country's concern about balancing the environmental issue and the development issue, pointing out that livestock development was extremely important to the economy of Botswana. I urged him to be specifically attentive to the importance of wildlife, as well, to that economy and the importance of protecting livestock, to the extent possible.

Now, I am not sure the abattoir loan is the Botswana-III loan. But if you are, then that is what we have done with respect to it.

Senator KASTEN. Mr. Secretary, we will get back and I will give you some specific questions for the record. But the point with the Botswana project, at least from our point of view, is that although cattle ranching might work on a short term basis, in the long term it is not a process which is helping environmentally or economically.

You take a country that 8 or 10 years ago was self-sufficient and had no starvation and, in fact, was a slight exporter of food, and now, after all these different projects including the cattle ranching, we are seeing a country which now has areas of starvation and also a country which has significant parts of its environment damaged permanently.

It might work for one season or maybe two seasons, but the long-term effect on Botswana is a negative one in terms of their economy and their economics. That is what I think. We are concerned.

Secretary BAKER. I would say that we agree with you, Senator, and we think, again, that the wildlife is a medium and long-term resource; that once it is gone they will never be able to bring back; that it is very valuable to that country and they ought to be very careful about displacing it with additional livestock production. That has been our general approach.

Senator KASTEN. Thank you, Mr. Chairman.

Senator INOUYE. Senator Specter?

Senator SPECTER. Thank you, Mr. Chairman.

UNFAIR COMPETITION FROM FOREIGN MARKETS

Mr. Secretary, I begin with the subject that I raised in my brief opening statement, and it is a subject that has concerned me since I have been in the Senate. It is a line of questioning I pursued with Secretary of Treasury Don Regan back in 1983 and pursued with you when you were here first on April 4, 1985 and then last year on March 12, 1986.

To put the issue in perspective, as I think it concerns the State of Pennsylvania and many States, why should a Pennsylvania steelworker or a Pennsylvania coal miner pay taxes to the U.S. Treasury which are then advanced to the World Bank, the MDB, which makes loans to Brazil, that subsidizes steel, loans to Colombia, that subsidizes coal. Those products then come into the United States. It is unfair competition and puts a steelworker or a coal miner out of a job.

I understand the concerns which you have raised in your opening statement about stimulating world trade, for those nations buy U.S. products. Perhaps it boils down to making the maximum effort to see that these U.S. funds are not being used to subsidize products which unfairly compete in the United States.

Last year, your response to the question was that, quote, "We will continue to monitor closely the potential impact of the MDB projects upon American producers of the same, similar or competing products. We will not hesitate to oppose such projects where appropriate."

My question is: what has the monitoring effect been, and what projects have you opposed?

Secretary BAKER. You are asking for a level of detail, Senator Specter, that I will have to get from the staff, which I will be delighted to do, and furnish for the record.

We have voted against a number of loans that have been suggested to produce commodities that are in oversupply, and I will have to get you the list of those. Brazil comes to mind. Argentina comes to mind.

Senator SPECTER. Mr. Secretary, I am not concerned about products in oversupply. I am concerned about products which are subsidized by Brazil or by Colombia, steel and coal, which unfairly compete with U.S. products. It is not a question of oversupply.

Secretary BAKER. I will have to get that for you and supply it for the record, Senator. I cannot give you chapter and verse of each loan that we have opposed in all the Multilateral Development Banks. But we, I dare say, have opposed some on those grounds.

TRADE LIBERALIZATION POLICIES

Senator SPECTER. Are you personally familiar with a real effort by your department to see to it, to the extent you can, that loans are not made where they result in subsidies to products which unfairly compete with U.S. products?

Secretary BAKER. We have used our leverage, if I may put it this way, Senator, with the Multilateral Development Banks to require trade liberalization measures by a number of countries before we will approve or vote for loans to those countries. Those trade liberalization

measures quite often take the form of the elimination of subsidies. I dare say that there are a number of countries and a number of loans where we have taken that position in one or the other of the MDB's.

I do not have those in my head this morning, but I will be delighted to get them for you, because that is our position.

Senator SPECTER. Mr. Secretary, how can I track it, as a Senator from Pennsylvania, in terms of the loans which you could have opposed? It may be one thing for you to specify some. Let me ask you: can you provide a survey of the loans which you could have opposed to give us assurance that you have opposed all of those where that was a reasonable possibility?

Secretary BAKER. I would be delighted to give you a survey of all loans that we have reacted to in one way or another, either supported or opposed, absolutely. We have that information. It is probably very comprehensive, and I will be glad to have it dug up and furnished to you.

Senator SPECTER. Mr. Secretary, in the foreign assistance bill last year, at my request report language was included on this subject to this effect, quote: "In light of increased foreign trade deficits and unemployment in import-sensitive industries, the committee directs the Treasury Department to instruct U.S. representatives to the Multilateral Development Banks to the International Monetary Fund to oppose and to vote against loans which would subsidize development of export industries in countries which receive loans from these institutions and which are engaged in dumping or other unfair trade practices with the United States."

My question to you is: is report language like that, that kind of direction, effective? Do you know about it? Do you pay any attention to it? Does it mean anything?

Secretary BAKER. Yes, sir, it means something. It certainly does. I am advised by staff, Senator, that we have had interagency meetings on this with U.S.T.R. and others to develop the process by which we can implement that. But the language is not something we just totally disregard or do not pay any attention to.

Senator SPECTER. May I ask if you are personally aware of that language?

Secretary BAKER. Was I personally aware of it when it came down? No, sir. But Senator, I cannot possibly be personally aware of everything that is stuck in every appropriations bill having to do with the Department of the Treasury.

Senator SPECTER. I appreciate that, Mr. Secretary. I would like to know who in your department focused on that. To get this done is a very complex matter. You have a lot of considerations you have to pursue; we have a lot of considerations we have to pursue. What I am trying to do here is to get as much impact as this Senator can on your department's policies.

So I am interested to see what you can provide for the record as to how this was responded to, who did respond to it in your department,

what was done, what loans were opposed, what loans could have been opposed. That will give me some idea as to what further pressure we might bring to try to get this policy effectuated.

Secretary BAKER. Let me add that I am now advised that there have not been any steel projects, not only within the year that you are talking about since I testified here but within recent years. The person that would be responsible for this in the department is the Deputy Assistant Secretary for International Affairs, James Conrow. He is here today, and he will be testifying within a week, I think, on this issue and can answer your specific questions in some detail.

Senator SPECTER. Is he here now?

Secretary BAKER. Yes.

Senator SPECTER. Do you know about this provision, this language?

Mr. CONROW. Yes, sir.

BAD DEBTS

Senator SPECTER. Let me turn to another subject. My time is limited. On the issue of bad debts, Mr. Secretary, and the problems raised by what Brazil has done recently, there are many concerns which that produces. A concern which I have is whether this may lead us to a point where it becomes necessary for the Congress of the United States to bail out major American banks which have made these loans.

The concern I have is that by many standards the loans to Brazil would be considered to be bad debts, where there ought to be a significant reserve placed against the possibility that they are bad debts. Frequently, when these loans are revolved and their points obtained, the funds then are used to pay dividends to the shareholders. It seems to me that the banks in the United States which have these loans ought to be doing a lot more by putting aside reserves and ought not to be paying the dividends, because the real question is: will they have any earned surplus to pay dividends out of?

The real question is whether they are not paying dividends to shareholders out of capital, and the whole reserve structure being very deficient, if there were an accurate appraisal of the extent of these bad loans which may come back to Congress one day on an international matter of great calamity.

I would like your assessment of the adequacy of the bad-loan reserves which the banks are making for loans like those to Brazil and other South American countries.

Secretary BAKER. Your best witness on that, of course, would be one of the regulators. But let me say this, Senator. I think that the banks are in much better shape today than they were when the debt problem first came on the scene in 1982. I think the debt problem itself is in better shape today for a number of reasons, which I will be glad to go into if you want me to.

But I think banks, generally speaking, not just U.S. banks but around the world, have more capital. They have had a chance to improve their capital and surplus position since the problem first appeared in 1982. And while it is still a major problem, I think that, generally speaking,

the banking system is in a lot better shape today. There has been some reserving going on to varying degrees, and overall, the banks are in a lot better shape than they were when this first happened in 1982.

Senator SPECTER. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Senator INOUYE. Mr. Chairman, thank you very much.

Senator NICKLES. Mr. Secretary, I will follow up on a very similar vein as Senator Specter. I share some of those same concerns. But first, to look specifically at some of the budget requests, again, I find that these are enormously large increases, very hard to justify. I happen to serve on the Budget Committee that Senator Inouye alluded to.

This administration has asked for a lot of tough things. They ask for a reduction of $5 billion in education that probably is not going to fly. As a matter of fact, I can tell you it will not fly. And then at the same time you are asking for a $2.5 billion increase in foreign assistance and a large part of that to the multilateral economic assistance banks. I do not see how that will fly.

I look at the International Bank for Reconstruction and Development. You want to go from $55 million to $204 million? How do you justify an increase almost three or four times as much as last year's appropriation?

Secretary BAKER. Generally speaking, the reason for the increase this year, Senator Nickles, is because we have failed to meet our international obligations entered into in good faith by the United States after consultation with the Congress. And we cannot continue, in my view, to do that.

Another reason we have a rather large budget request is because we have a new replenishment of the International Development Administration this year, IDA-VIII. That is a significant part of our budget request.

Senator NICKLES. I am going to try to touch each one of these. In the International Bank for Reconstruction and Development, you went from $55 million to $204 million from 1987 to 1988. Did we sign an agreement that would increase our contribution three and a half times?

Secretary BAKER. No. What that reflects, as a matter of fact, in terms of our commitment to a previous general capital increase for the bank, is that we went from $55 million to $58 million. But we agreed to a special capital increase in 1970, and we now have to come up with an installment of $14 million. Should we walk away from that?

Senator NICKLES. I am talking about an increase from $55 million to $204 million. Do you think you could provide for the record where that increase came from?

Secretary BAKER. I am telling you where it is now. It is $14 million from a 1970 S.C.I. It is $131 million from a 1984 special capital increase commitment the United States made in good faith after consultation with the Congress. And it is $58 million as a regular general capital increase installment. So the real increase, if you want to look at it from 1987 to 1988, is $3 million.

Senator NICKLES. The real increase in outlays that this committee is going to have to appropriate goes from $55 million to $204 million. Maybe those commitments were made some time ago. But now you are asking us to fund them and you are asking the taxpayers to.

In IDA you are talking about going from $622 million to $958 million. That is about a 50 percent increase. Maybe we need to do a better job in negotiations.

I find those very hard to sell. I am interested in the data. If you or your staff could give us a breakdown of those increases, I would appreciate it.

Secretary BAKER. I would be glad to.

May I just say on IDA, because you just mentioned it, what we are really going from is $830 million to $958 million.

Senator NICKLES. We have not received the $207 million supplemental yet.

Secretary BAKER. What I am saying is from what we have asked for in 1987, we go from $830 million to $958 million.

Senator NICKLES. But you have not received the supplemental.

Secretary BAKER. No, that is correct.

Senator NICKLES. And some of us are not sure that you should.

Secretary BAKER. I understand that, but we are entitled to ask for it. The reason we are asking for it is because we made commitments in good faith on the credit of the United States after consultation with the Congress, and we have not been able to keep those commitments because we have been cut. So what we are saying is: let's keep our word.

SOYBEAN EXPORT INCREASES FROM BRAZIL

Senator NICKLES. Mr. Secretary, let me move quickly. I know my time is going to expire. I mentioned to you during the Budget Committee a concern about Brazil loans that would increase soybean exports. I also mentioned the Argentina World Bank loan of $350 million that was announced April 3, 1986.

I have just a couple of comments on that loan. In reading some of the comments, also coming from the press, "the World Bank expects to lend Argentina about $1 billion to support the country's economic reform efforts and expects to lend the country about $300 million to strengthen some of its state-controlled enterprises. And the farm reforms that Argentina is undertaking are designed to increase farm income, reduce cost to farmers and make Argentinian exports more competitive in world markets." In Oklahoma that means hard-red winter wheat; they are one of our biggest competitors. The loan is for 15 years, including 3 years of grace, with a variable interest rate currently of 8.5 percent.

I am sure you are probably aware of some of the difficulties that we are having in agricultural areas. World prices of wheat and everything else have been declining substantially, and yet we are turning around and making low-interest loans that they do not have to make interest payments on for 3 years so they can be more competitive in the world

markets when their price is already substantially less than our producers' costs even come close to.

That is one of the reasons why this Senator has some concerns about this administration coming up and asking for enormous increases for the World Bank.

Again, to follow up on what Senator Specter said, the Senate passed legislation, not even in the form of a resolution or in report language but statutory language, that would direct our representatives to veto actions on commodities that are in surplus such as wheat, soybeans and others. Now, that language was not agreed to by the House, but it has passed the Senate. It passed the Senate three times. I hope to say that it will pass again, and I hope that the House will agree or concur. But I would hope that it would not take that. I would hope that the administration would be vigorously opposing these types of loans.

Do you have any comment?

Secretary BAKER. Yes, Senator. As a policy matter, as I have indicated to you and testified before the Budget Committee, we oppose loans for the production of commodities that are in oversupply. And we have done that on a number of occasions this year. We did it in the same month of the Argentinian loan that you are talking about. We did it with respect to a loan to Brazil. And I think we have probably done it in other cases as well. So we are doing that as a policy matter.

But we have a difference of opinion, I suppose, on the Argentine loan you are referring to. That was not a soft-window loan. That loan was made on hard terms at current rates and so forth, even if it ended up in the production of commodities that compete with commodities produced in your State and my State. But that is really the only one, I think, that you can point to and criticize this year, in 1986. I do not know of another one that you can criticize.

We have a difference of opinion with respect to that one loan. That does not mean, in my view, that we ought to somehow abandon the multilateral institutions and say that we are not going to support them, because they are fundamentally important to the economic well-being of the United States.

This is an interdependent world we live in. Those countries down there used to represent some of our best markets, and they do not any more for various reasons. And we need to continue to try to deal with that problem.

MULTILATERAL INVESTMENT GUARANTEE AGENCY

Senator NICKLES. Mr. Secretary, I am going to try to move quickly to one other issue, and no one has raised this yet. You mentioned it in your statement. It concerns the Multilateral Investment Guarantee Agency, a new agency which you would like to have the United States be instrumental in founding. You called for an appropriation of $44 million in direct contributions.

Again, I think there is an enormous amount of bad loans that have been made. Now you are asking us to be a participant in setting up an

agency to guarantee—and I do not know if those are past loans or future loans—these are loans that if the international banks had to have those rated, they would be classified.

We classify domestic loans, and the Comptroller has been very vigorous at classifying loans that are not current, that do not have adequate capital. I think we have a large percentage of the Brazilian loans, the Mexican loans and other international loans that have been made that would not hold to our standards. Maybe we should be bringing this up to the regulators, as you mentioned before.

Now you are asking us to participate with the Multilateral Investment Guarantee Agency, a new one, where we would be significantly guaranteeing loans that probably again would in all reality be bad loans.

Secretary BAKER. Senator, let me just say on that score that MIGA does not make loans. We are not asking you for money for an organization or an institution that makes loans. This entity will insure investments.

If there is one thing that we in the United States think is important, it is liberalizing investment regimes of lesser developed countries so that we can move them toward more free-market, free-economy type of economic policy. MIGA is strongly supported by the private sector in this country, the Chamber of Commerce among others.

Senator NICKLES. I am sure they would love to have some of their investments guaranteed because they have made bad investments. We have FDIC in the United States, but that insures an investment or an investor up to, say, $100,000. We have got banks that are failing in our State and your State.

Secretary BAKER. Senator, the MIGA is the multilateral equivalent of OPIC, which we have, which insures investments in lesser-developed countries. We do live in an interdependent world, and it is important that these other countries prosper so they can trade with us.

If there ever was a private-sector, free-market economic approach, this is it: the MIGA. We really, it seems to me, ought to be supporting it. It is $44 million; that is all we are talking about.

Senator NICKLES. Thank you, Mr. Secretary.

Senator INOUYE. Thank you very much.

Before proceeding with Senator Harkin, I would like to have a clarification. Senator Nickles spoke of IDA, the International Development Association. Is it not true that the amount that is being requested for appropriations this year will not be obligated during this fiscal year? In other words, if anything, the outlays would be less than 5 percent?

Secretary BAKER. I think that is correct, Mr. Chairman. It is also true—I did not have a chance to say this—that the percentage of the U.S. participation in IDA–VIII is going to be less than it was in IDA–VII. Even though the overall amount of IDA–VIII is greater than IDA–VII was, U.S. participation, Senator, is going to be less.

Other countries are picking up a larger share of the load. Japan, particularly, is making an extra contribution of something in the neighborhood of $450 million. So our overall participation is going to be less.

BRAZILIAN BANK DEBT

May I give you the figures you asked me for on the Brazilian debt? Brazilian commercial bank debt is $78 billion overall, of which $23.3 billion is owed to U.S. banks, approximately 30 percent.

Senator INOUYE. Thank you, Mr. Secretary.

Senator Harkin?

Senator HARKIN. Thank you, Mr. Chairman.

COMMERCIAL BANK LOAN TO CHILE

Mr. Secretary, on February 17, an article appeared in *The Washington Post* with the headline U.S. Vetoes World Bank Role in Chile Loan. The opening paragraph says, "The Reagan Administration has vetoed World Bank participation in the commercial bank loan to Chile, telling private banks it is their responsibility to loan, providing the $400 million the cash-strapped country will need this year and next, sources said."

Mr. Secretary, I would like to ask you what factors went into this consideration to veto this participation.

Secretary BAKER. Senator, in the first place, we really did not veto a loan, because no proposal had ever been submitted to the World Bank board for a co-financing for Chile. The commercial banks were and are involved in putting together a new money package for Chile, and they brought to our attention the possibility of a co-financing operation from the World Bank.

They took the position that the intention would be to provide additional comfort to the commercial banks by having a small portion of this subject to a co-financing deal with the World Bank. We did not feel that that additional comfort was warranted under the circumstances because Chile, regardless what you think of its human rights performance, has a very good record on economic performance and it has a very good record on growth-oriented adjustment.

It was our view that the commercial banks can and should find a way to cover their legitimate financing needs without looking to the World Bank.

Senator HARKIN. So are you saying that human rights considerations played no part at all in your presentation to the World Bank?

Secretary BAKER. No, sir, I am not saying that. But what I am saying is when you couple that concern with the additional consideration that Chile is performing well economically, that there was in our view no reason to look to the World Bank for a co-financing proposal in this circumstance.

Senator HARKIN. So human rights considerations do play a role, obviously, in your considerations.

Secretary BAKER. Yes, sir, and we voted against a loan here recently to Chile on human rights grounds.

Senator HARKIN. You voted against it, or did you just abstain?

Secretary BAKER. Abstention is a form of opposition, Senator.

Senator HARKIN. But voting against it would be a stronger statement, would it not?

Secretary BAKER. Some argue that. But it is well known that an abstention is a form of opposition.

Senator HARKIN. I would point out that this administration has abstained on six loans out of 36 over the last several years. But I do not mean to take that tack in this questioning.

What I wanted to find out and what I wanted to get on the record was, first, what factors went into this consideration. Second, do you know whether or not the recent testimony of Amando Fernandez—a former Chilean espionage agent, who testified in court here that the government of President Augusto Pinochet was directly involved in the 1976 car-bombing murder of Chilean Ambassador Letelier and Ronnie Moffett—was at all pivotal in this decision. As you know, his testimony directly implicating the Pinochet government in the 1976 assassination which took place in Washington, D.C.

Secretary BAKER. Senator, we had in November 1986, following extensive consultations with the Congress, abstained on a loan to Chile because of its lack of progress on human rights. We did the same thing in December of 1986.

So our present posture with respect to loans to Chile is to indicate opposition, either through abstention or otherwise, until there is a change in the human rights situation. So while that was an aggravation, it was not something that would operate to change our policy from what it presently is.

Senator HARKIN. You say you abstained on these two recent loans. Have your concerns in the human rights area been expressed to the Chilean government?

Secretary BAKER. Senator, we do not do that. The State Department does that. And frankly, we rely on them to a large degree too with respect to evidence of progress or lack thereof on human rights. So the Treasury Department does not have the lead responsibility there.

Senator HARKIN. The reason for that question, Mr. Secretary, is that if the Chilean government feels that the only reason for abstention is because our concern is that the private banks can handle it quite well and it does not have anything to do with human rights, then they can continue on down the road that they have been going for the last few months. Under Section 701, human rights concerns ought to be made expressly clear to the Chilean government.

Secretary BAKER. I think the Chilean government well knows our position on their lack of progress on human rights.

Senator HARKIN. I hope so too. I would congratulate you, at least 75 percent anyway, for at least abstaining. I wish you might go the step further and make it even clearer.

Secretary BAKER. This proposal, though, really did not come from the Chilean government, you see. There was never a loan proposal before the World Bank board. The suggestion came from the commercial banks who felt that if the mere fact of World Bank participation would

enable them to better put together a package for Chile. It was not a Chilean request.

Senator HARKIN. Then just to follow up with one more question. In testimony before the House last July 30, Assistant Secretary of State Elliott Abrams stated that he would recommend that the United States vote no on MDB loans to Chile if the then-current human rights situation persisted. In other words, he said they would recommend we vote no.

It is my understanding that by the time of the next vote in the World Bank on the $250 million structural adjustment loan on November 20, the human rights situation had not improved; in fact, a state of siege had been imposed in the meantime. Yet the United States abstained rather than vote against the loan.

It is my further understanding that the United States had made clear to our European allies that we did not seek the defeat of that loan.

Mr. Secretary, did Treasury's positive assessment of Chile's economic reforms lead you to argue that Chile should not be punished for its human rights record by voting no on the November 20 loan to Chile?

Secretary BAKER. We indicated opposition to that loan by abstaining, Senator.

Senator HARKIN. Did we indicate to our European allies that we did not seek the defeat of that loan but that we were merely abstaining?

Secretary BAKER. Not as far as I am aware. We indicated to our European allies that we were going to abstain, and some of our European allies voted against that loan, as well. Some abstained and some voted no.

Senator HARKIN. But you are saying that your department, the Treasury Department, made no overtures to our European allies, saying that we were going to abstain but we did not want the loan defeated?

Secretary BAKER. I do not think we would have said but we do not want the loan to be defeated.

Senator HARKIN. Or words to that effect or any representation that we wanted the loan to go through. Did we make any representations to our European allies that we wanted the loan to go through notwithstanding our abstention?

Secretary BAKER. We may well have said to our European allies that we think the economic situation in Chile is such that a loan like that should not be and cannot be opposed on economic grounds alone. That is our job in the Treasury Department. We are not the human rights folks; they are over at State.

So we had no problem with the economics of it, Senator. And the Chilean performance, whether we like their human rights record or not, has been very good in the economic area. So I am not prepared to say we did not do that, because there are a lot of people in our department that talk to our European allies.

Senator HARKIN. But Section 701 does cover Treasury Department as well as the State Department, does it not?

Secretary BAKER. Yes, 701 does.

Senator HARKIN. So therefore, that consideration has to be taken into account also.

Secretary BAKER. Yes, sir, it does indeed. Both have to be taken into account, and that is why we abstained.

Senator HARKIN. Thank you, Mr. Chairman.

Senator INOUYE. Senator Leahy?

Senator LEAHY. Thank you, Mr. Chairman.

Mr. Secretary, it is good to see you here. I am sure you miss your days at the White House and all the excitement being undertaken there. I am sure it is a great disappointment that you have to leave periodically for these foreign conferences and get out of town.

FOREIGN MILITARY SALES PROGRAM

In all seriousness, I am concerned about the administration proposal to restructure payments under the foreign military sales program. As I understand it, the administration has offered this debt restructuring because several of our key friends—and I am thinking now of Egypt among others—obtained very high interest rates in the loans they negotiated back in the 1970's when interest rates were much, much higher than they are today. These loans are very onerous not only to Egypt but to our other allies.

As I understand the restructuring proposed by the administration, the nations with FMS debts have two options. First, they can either repay their loans without any penalty. And I suspect there may be a few countries that can do that either through refinancing or otherwise. But under the other option, the high interest rates charged for loans that were entered into the 1970's would be lowered to present levels, and the difference in the annual debt service costs—which for a country again like Egypt would be very substantial—will become due in a balloon payment after the year 2000.

Now, as I understand, again using Eqypt as an example, the balloon payment due in 2009 would be over $3.5 billion. That is seven times what they are now paying.

My question is: the Egyptians cannot pay $500 million a year now; how are they ever going to pay $3.5 billion when that comes due?

Secretary BAKER. What you have here, Senator Leahy, is an interest capitalization proposal which is not something that is unusual in the arena of private finance. Quite frequently, when a loan gets in trouble, the lender will permit the capitalization of interest and add it on to the end of the loan so that the debtor has time to reform its practices, or whatever it was doing, and earn its way back. And that is all this is.

Senator LEAHY. I understand the principle of that. I also understand from my days of practicing law that often those companies get a momentary breather and then they go into Chapter 11 anyway and never pay it. Do you really think their economy is going to grow in such a way that they can make a balloon payment of that nature?

Secretary BAKER. Nobody is saying that that is going to happen, Senator. But I think it is fair to say that we would hope it might happen. This proposal does give them a little breathing room. It was a proposal that was offered to them pursuant to a specific national security determination made by the President.

NATIONAL SECURITY DETERMINATION

Senator LEAHY. Let me ask you about the national security determination. Suppose they get to the end of that road and they look at this $3.5 billion, and they say gosh, we cannot afford our alliance with the United States. Has that been considered?

Secretary BAKER. Not to suggest that they are in any way now, but suppose their circumstances today are reasonably dire in terms of their ability to pay. Suppose they said that today—and they have not even hinted at it.

Senator LEAHY. But they are also facing $500 million a year payments today; they are not facing $3.5 billion.

Secretary BAKER. That is correct. But under this proposal they will be facing far less than $500 million over a period of years leading up to 2009, I think it is. I do not remember the exact date.

Senator LEAHY. If they were kept to the original payment plan, what would happen in Egypt? What is your determination? Suppose we did not have the administration's proposal. Suppose that did not become law. Suppose they were kept to their original payment schedule. What would happen?

Secretary BAKER. I cannot speculate on that, Senator, because I do not know. We do know that they are in difficult straits economically. We are extremely encouraged by their decision to go to the IMF. And by reports, it looks like they have come close to working out a standby agreement with the IMF.

Senator LEAHY. I hope you understand my concern, Mr. Secretary. At some point there must have been some whether it is just speculation or informed judgment on your part or others as to what was going to happen there if we did not make this change. That is what I am asking.

In other words, what are the things that motivated the most in making the change? What were the dire consequences that seem most probably to the administration?

Secretary BAKER. I think the importance of the relationship between Egypt and the United States; the fact that Egypt is out there to some extent on the front lines; the fact that they are in dire economic straits; the fact that the President felt it was important to demonstrate the strength of our commitment to Egypt, to find a way to give them some relief from these very high interest rates that they are now required to pay us since these debts were contracted when rates were so much higher. That is what went into the calculus.

Senator LEAHY. Let me go into another area which is not totally unrelated. You talked about Third World debt crises. One thing is near-term economic growth. We have used our aid and we have conditioned

our aid on the question of whether developing nations are making changes to spur economic growth, however defined.

Let me give you a couple of examples about economic growth and what we should do. Should we ask a Third World nation to increase economic growth to service their debt if, one, the nation's only viable means of boosting economic growth was surging oil production, which might result in less long-term oil production, or secondly, if that nation's only viable means of boosting short-term economic growth is to expand livestock production, but if we do that they are going to in the long term increase the amount of desert in their country.

Secretary BAKER. I do not think we are suggesting for one minute that we ought to do something in the short term that would be detrimental to their medium- and long-term prospects.

Senator LEAHY. But even if that is the only viable way.

Secretary BAKER. I would not accept the fact that the only viable way a country could increase growth would be to increase the production of its oil or the production of its livestock. There are other things they can do.

Senator LEAHY. But those suggestions have been made in some countries.

Secretary BAKER. Not by us.

Senator LEAHY. Thank you.

Thank you, Mr. Chairman.

Senator INOUYE. Senator Mikulski?

Senator MIKULSKI. Thank you very much, Mr. Chairman.

Mr. Secretary, as a new Senator, I want to thank you for the extra materials furnished by your staff and also for your invitation to attend as a congressional delegate, some of these bank meetings, and to see firsthand what we are getting for our money. I thank you for those invitations.

My questions are related to trade. You make the case that it is important to fund these banks to promote self-help and expansion within their own countries, and number two, it also is good for the United States for both strategic reasons and trade reasons.

Having said that—and that is the premise—my question then goes to the fact that there are many who say these banks are financing competition for Americans' jobs ala IMF or some of the others and that, second, because of their debt we are not able to trade with them.

BRADLEY DEBT FORGIVENESS PROGRAM

Our own colleague, Senator Bradley, has proposed a series of ways of debt forgiveness to then use that as a tool to open up markets so that trade becomes a two-way street. Often the IMF's solution for problems, as you know, is minimize imports, and maximize exports. That means we cannot trade in but they trade out to us.

Would you comment therefore on your views on the Bradley debt forgiveness program as a way of helping these countries?

Secretary BAKER. Senator, it is our view that mandating debt relief will not work and that it might in fact be counterproductive. The reason we feel that way is that most of this debt is private debt. It has been built up over a long period of time. We see no solution—and I might say Senator Bradley and I agree on this—no solution to this debt problem that does not have as its basis the concept of growth. We have got to find a way to permit these countries to grow.

I happen to believe that way is not through our telling our banks that we want you to take a 3-percent interest cut, we want you to take a write-off of 10 percent of your principal, trying to mandate that relief, but through encouraging these countries to adopt free-market economic reforms, the kind of economic policies, if I may say so, that we follow in this country. That is the way to get there.

Now, if they are willing to do that, they have got to be assured of some capital flows to support those reforms. And there are only two ways to get those capital flows. One is equity, and that is preferable if you can get some equity in there because you do not have to pay interest on it. And the other is additional lending.

If you mandate that relief, what you are going to do is cut those countries off from the private financial markets. No banker in his right mind is going to even consider additional lending if he has been told by government that he has to take a hickey on the lending that has already been made. And there is no way to get there——

Senator MIKULSKI. Hickey, is that what you said?

Secretary BAKER. Take a hickey, yes.

Senator MIKULSKI. I got it. I am just not used to somebody who looks like you talking like that. [Laughter.]

Secretary BAKER. Senator, that is a phrase I used to use when I was practicing law.

Senator LEAHY. I think that goes back to my teen-age days. I am beginning to blush up here.

Secretary BAKER. Take a loss. [Laughter.]

The bottom line is if you cut them off from the private financial markets, you will not have the additional capital flows that are needed to support those economic reforms, which is the only real answer to increased growth.

Senator MIKULSKI. Mr. Secretary, with Brazil's position now, which is essentially that of nonpayment, do you know of any private bank that is going to lend anybody any more money anyway?

Secretary BAKER. Brazil just finished renegotiating and restructuring its official debt, its official credits, with the Paris Club just several weeks ago. I said, I think perhaps before you got here, Senator, that while we regret that Brazil took this action, we expect it to be temporary. We fully expect it to be resolved, in fact, in its negotiations with its private lenders.

Senator MIKULSKI. So you do not see this as the beginning of the formation of a debtors' cartel?

Secretary BAKER. No, I certainly do not, and I so said earlier. I really do not.

Senator MIKULSKI. One other question, if I may, is this, and this now goes to taking a look at our own debt and therefore financing these banks. We of course have our own deficit problems. There is no doubt that these banks should be financed. But there are also emerging in the world what we would call new world wealth centers, Japan being one, the Pacific rim total being in addition.

My question is: are these new, emerging wealth centers, or countries, contributing to these international banks? And number two, what are we doing to encourage others to come in and bankroll them rather than the United States being the primary financier, if you will?

Secretary BAKER. While we still may be the primary financier, we are far and away the largest economy in the world and, as such, it has been my view that we have an obligation to lead. But on the other hand, the question you ask is very appropriate, Senator, and we have been encouraging these surplus countries particularly, Japan and Germany, to pick up a greater share of the load. They have in fact been doing so.

Senator MIKULSKI. Have they?

Secretary BAKER. Indeed they have. In IDA–VIII, Japan is making an additional contribution of $450 million toward a larger IDA–VIII than we felt was appropriate to bring to the Congress as a request. Our percentage share of IDA–VIII is down from what it was in IDA–VII, I think from 25 percent to 23 percent. Italy, Canada, Germany are all making a greater contribution to this replenishment of IDA than their normal shares would have required.

We are further encouraging Japan to do what it can to recycle some of this surplus into the lesser-developed countries primarily through the multilateral institutions. We sure do not want to see them do it by tying aid to their trade deals and that sort of thing. And I must say that they have been responsive to these entreaties.

Senator MIKULSKI. Thank you, Mr. Chairman. I have no other questions.

Senator INOUYE. Thank you very much.

Senator Lautenberg, in consideration of the Secretary's tight schedule, has consented to submit his questions to you for your consideration, sir. I realize that you have a meeting with the President shortly. Senator Kasten has a few words to say before you leave.

Senator KASTEN. Mr. Secretary, I do not want to go through the questions because I understand your time constraints. I simply want to say that the proposal that you and Secretary Shultz developed, as the Chairman mentioned, on FMS debt rescheduling so far is not being well received by either the Turks or the Israelis or the Egyptians or others.

I am hopeful that somehow, working together with you and Secretary Shultz, that we are going to be able to work out this debt rescheduling proposal either through guarantees, through use of the private banking systems, whatever. I have a number of questions that I would like to

submit to you for the record and then I look forward to working together to try to resolve this very, very important issue. We are about 90 percent of the way.

I think it is important that we work out a proposal that is going to make it possible for them to reschedule that debt in a way that we intend but not have some of the spillover effect that I know you are concerned about.

SUBMITTED QUESTIONS

Senator INOUYE. Mr. Secretary, all of the members have questions they would like to submit to you for consideration. I have been asked specifically by those who were not present this morning, that other commitments made it impossible for them to be here, but they would like to submit questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

THIRD WORLD DEBT AND THE TRADE DEFICIT

SENATOR INOUYE: Mr. Secretary, to what extent would a significant reduction in the Third World Debt affect the U.S. trade deficit? What effect would this have on the Federal deficit?

SECRETARY BAKER: The effect of a reduction in developing countries' external debt would depend importantly on the way the debt was reduced. If the debt were reduced by the earnings from expanded LDC exports to industrial countries, then there could be, after the debt reduction, a subsequent expansion of imports from the United States generated by income from continued higher export earnings. This would help to reduce our trade deficit and could also reduce our budget deficit somewhat by increasing GNP growth.

Similarly, reductions in market interest rates, by reducing debt service burdens, improve the potential for debtors' imports.

If on the other hand the debt were reduced in a way that impaired LDC creditworthiness, access to trade finance could be jeopardized with an adverse impact on imports. It is, in fact, difficult to predict whether a substantial reduction in LDC debt via debt forgiveness would have any positive impact on U.S. exports. Bank losses would be tax deductible, reducing tax revenues and increasing the budget deficit.

Although the decline in U.S. exports to Latin America since 1981 accounts for nearly 20 percent of the total U.S. trade balance deterioration in this period, it will take time to reach the 1981 level again. We remain convinced that the best way to boost U.S. exports to Latin debtors is through stronger growth in their economies, and open, growing markets in the industrial nations -- not quick-fix gimmicks with no lasting effect on trade flows.

CONDITIONALITY OF IDA LOANS TO SUB-SAHARAN AFRICA

SENATOR INOUYE: Mr. Secretary, I found your presentation of the IDA VIII request very interesting. You note that priority will be given to Sub-Saharan Africa, with between 45-50 percent of IDA VIII lending targeted for that region.

What is the reasoning behind this priority? I know the need is there, but can Sub-Saharan Africa effectively absorb increased lending?

SECRETARY BAKER: As you point out, the need for external support in Sub-Saharan Africa continues to be great. The economic prospects in the region are very poor and our continued support is crucial if these countries are to be successful in reorienting their economies and restoring growth.

The ability of the low income countries to absorb increased lending is directly related to their willingness to undertake structural reform measures to promote growth. Without such reforms, there would be an absorptive problem. Among the 34 IDA eligible countries in Sub-Saharan Africa, 22 have major programs of structural reforms underway or are close to initiating such programs. In some countries, these efforts have been underway for several years and the challenge for the development institutions and the recipient countries is to support the deepening of the adjustment program on a sustained basis. In a few countries, the adjustment process has barely begun and efforts must be supported and strengthened. The spread of adjustment programs and the depth of the reforms being undertaken is in fact a major achievement of African Governments and as such deserves the full and continued support of the donor

community. The adjustment process is a long and difficult one. If developing countries are to be successful in implementing the necessary economic reforms they will need adequate external assistance. The IDA VIII replenishment is a critical element of this assistance.

SENATOR INOUYE: When you say greater emphasis will be placed on conditionality and performance as a criteria for lending, what do you mean? Can you be specific? What type of conditionality? What performance standards?

SECRETARY BAKER: I was refering to the existing allocation criteria—relative poverty, population size, and economic performance. Donors agreed that these criteria should continue to be used but there should be greater weight given to economic performance in the allocation of IDA resources in order to support and encourage the adjustment process.

IDA project lending standards will continue to be based on the economic rate of return in the same way World Bank projects are evaluated. For policy based loans, each adjustment progam is tailored to individual country conditions. Among the reform measures being sought are: the reorientation and reduction in public investment programs, agriculture output pricing and marketing reforms, privatization of public enterprises, and reforms of the financial sector. The reforms are far reaching and difficult. In most cases a medium term adjustment program is designed with the country and then a series of loans is developed. If the reform efforts associated with a loan become stalled, the second tranche of that loan can be cancelled and further negotiations take place in order to put the adjustment efforts back on track.

SENATOR INOUYE: If IDA loans are disbursed in the form of a lump-sum payment, how will you enforce conditionality? How will assure that performance standards are met?

SECRETARY BAKER: IDA policy based loans are generally made in two tranches not in a lump-sum. This allows a cancellation of the second tranche if the adjustment process becomes stalled. In many cases, however, the reforms required have been negotiated and have begun to be implemented before the loan is formally approved.

The adjustment process is an ongoing one. In most cases a series of loans are required to support the adjustment process. While the loans are made within the context of a medium term development strategy, they are negotiated separately and any one may be cancelled if it becomes clear that the terms of the loan are not being met.

U.S. DEBT INITIATIVE

SENATOR INOUYE: Mr. Secretary, in response to a question I asked last year you described the U.S. debt initiative on page 49 of the Hearing record.

Please describe the base against which a "50 percent in World Bank and IDB disbursement to the principal debtors, up to 9 billion annually ..." will be measured.

SECRETARY BAKER: In 1985, the disbursements of the multilateral development banks approximated $6 billion, and we suggested a 50 percent increase to $9 billion annually in support of the major debtors' growth-oriented reforms.

SENATOR INOUYE: Please describe the base by which the "$20 billion in net lending" by the commercial banks will be measured. Your staff has stated that the Treasury Department's expectation was that "no net new commercial" lending was expected in 1985 and that therefore any new lending should be counted towards the goal of $20 billion. Is that correct?

SECRETARY BAKER: At the time the debt strategy was developed, net new lending by the commercial banks in 1985 was expected to be negative or close to zero. Based on the expected global environment, we estimated that approximately $20 billion in net new commercial bank lending would be needed during 1986-1988, in combination with enhanced MDB loans and expected lending by the IMF and official creditors, for the debtors to achieve 5 percent growth during this period.

SENATOR INOUYE: What sources will the Treasury Department use to measure the "net new lending" by the commercial banks?

SECRETARY BAKER: The Bank for International Settlements, International Banking and Financial Market Developments (quarterly). If we need information on U.S. banks only, we use the Country Exposure Lending Survey, released quarterly by the Federal Reserve System. Both of these publications reflect total changes in the banks' exposure, including book writedowns, sales of claims to entities other than the reporting banks, debt/equity swaps and transfers of claims to export credit agencies. Therefore, we cannot derive precise net new lending figures from these data. Adjustments are based on our own estimates or those of the IMF.

SENATOR INOUYE: In a "Question and Answer" prepared for this hearing you state that the commercial banks "rescheduled nearly $70 billion in debt for 6 major debtors". What portion of these reschedulings represent "net new" commercial lending? What percentage of these reschedulings are short-term rollover debts?

SECRETARY BAKER: The $70 billion figure reflects principal payments in medium- and long-term debt due in a given period which have been stretched out, generally at lower interest rates and spreads. Excluded are any rollovers of short-term debt, such as trade credits, and new money packages. However, associated with the rescheduling agreements were concerted lending packages involving nearly $8.3 billion.

THIRD WORLD DEBT AND U.S. FOREIGN AID

SENATOR INOUYE: I agree with your conviction that it is absolutely essential that we make progress in solving the international debt problem. However, I am concerned that the President's foreign aid budget does not appear to reflect this priority.

Why in the President's request are the 15 priority countries you have identified as critical to the resolution of the global debt problem receiving $194 million less in bilateral aid than they did in 1986?

I am especially concerned that the poorest countries that are Baker plan priorities, -- Bolivia, Ecuador, Morocco, and the Philippines -- are receiving $196 million less support than in 1986? Does the Department of State coordinate the request for economic assistance with the Department of Treasury?

SECRETARY BAKER: In the President's 1988 request, for budgetary reasons, ESF and DA totals for about $5.8 billion have been held to roughly the same level as in FY86. Within this ceiling, since assistance levels for Egypt and Israel are earmarked, the reductions have been absorbed by the remaining countries, including some of the Baker Plan priority countries. Of the 15 Baker Plan priority countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia), our best information is that only Ecuador, Peru and Uruguay have reduced levels in the President's FY 88 request.

The State Department coordinates the Administration's request for bilateral economic assistance with limited Treasury involvement in determining country program levels. The Treasury Department is involved primarily in assistance requests for the multilateral institutions.

WORLD BANK, COMMERCIAL BANKS AND INTERNATIONAL DEBT

SENATOR INOUYE: Mr. Secretary, The Administration has requested over $900 million for the World Bank and IDA in fiscal year 1988. The so-called Baker plan, assumes that both the multilateral banks and the commercial banks will make $20 billion in net new lending available to the debtor nations.

If the commercial banks continue to be reluctant to extend new credit, should the World Bank funding be expanded to cover the shortfall?

SECRETARY BAKER: We have stated for several years that if demand for high quality loans were to require it, we would be prepared to consider a general capital increase in the World Bank. Until now, demand has not reached such a level.

This is entirely separate from the role of commercial banks in supporting reform efforts. We expect all external sources of finance will see their interest in providing commensurate support. We do not believe official financing, through the World Bank or otherwise, can or should supplant the role of commercial banks.

WORLD BANK FUND INCREASES -- MAKE A DIFFERENCE?

SENATOR INOUYE: Third World Debt is very large. You have proposed that the World Bank increase its lending by $9 billion over three years. This increase ($9 billion) is less than one year's payment on Mexico's debt alone.

Do we need a much more far reaching proposal?

SECRETARY BAKER: No. The Program for Sustained Growth focuses on the fundamental need for stronger growth in the debtor nations as a prerequisite to solving the debt problem. The success of this strategy ultimately depends on the willingness of debtor nations to initiate their own growth-oriented reforms, including both macroeconomic and structural elements. Additional financing is essential to support these reforms, but in providing this financing, it must be stressed that simply adding debt onto debt at a pace that exceeds the debtor countries' capacity for growth must be avoided.

The modest increases in financing envisaged in the strengthened debt strategy were not intended to finance debt service payments. On the contrary, the additional financing is intended to support adoption of comprehensive, growth-oriented programs by the major debtors. With such programs in place, the prospects for sustained growth and creditworthiness will improve and will generate additional

flows to the indebted countries, including non-debt creating flows such as direct investment and repatriation of flight capital.

EEC AND THIRD WORLD DEBT PROBLEM

SENATOR INOUYE: In response to a question that I asked you last year concerning the responsibility of the creditor nations in resolving the Third World debt problem, you stated that the creditor nations can make a major contribution by promoting "stronger growth in their own economies".

Are our European and Asian allies making such a contribution by promoting "stronger economic growth" in their own economies?

SECRETARY BAKER: The recent meeting of Finance Ministers and Central Bank Governors of major industrial countries on February 21-22 in Paris, explicitly recognized their "special responsibility" to foster an open, growing world economy to support efforts of LDC debtors to restore growth and adjust external imbalances.

-- Surplus countries committed themselves to follow policies to strengthen domestic demand and reduce external surpluses.
-- Deficit countries committed to follow policies to sustain growth while reducing domestic imbalances and external deficits.

BRAZIL'S MORATORIUM ANTICIPATED

SENATOR INOUYE: Mr. Secretary: On February 14, six days before Brazilian Government made its announcement, the Brazilian newspaper FOLHA DE SAO PAULO reported that the Government had drawn up plans to withdraw its reserves from Western Banks and transfer them to institutions that are "secure and retaliation-proof" in the event of a unilateral declaration of a debt moratorium.

Was Brazil's debt repayment moratorium anticipated by the U.S. Treasury Department? If so, what actions were taken to protect U.S. interests?

SECRETARY BAKER: Brazil's decision to stop payment temporarily on its foreign debt to commercial banks was not unexpected. We had been following closely the precipitous drop in Brazil's trade surplus and the impact this was having on its foreign exchange reserves. The action to stop payment in order to keep reserves above a certain minimum needed to maintain a flow of essential imports is understandable. We found, however, the unilateral nature of the action disturbing.

Even though we expected a Brazilian move to stem the outflow of reserves, we did not deem it necessary to take protective measures, given Brazil's long-standing performance as a reliable debtor.

SENATOR INOUYE: Has Brazil withdrawn hard currency reserves from Western Banks in recent days in order to protect them from seizure?

SECRETARY BAKER: We have seen no evidence that Brazil has withdrawn hard currency reserves from Western banks to protect them against seizure. On the contrary, Brazilian officials are in the process of negotiating the renewal of some $15 billion in interbank and trade lines with these same banks; this requires the continuation of a good relationship between Brazil and those banks.

IS DEBT RESCHEDULING A POSITIVE SIGN?

SENATOR INOUYE: In your prepared remarks you cite as an achievement of your debt intiative that "nearly $70 billion in debt reschedulings have been negotiated with the major debtors since October 1985".

Are debt rescheduling agreements a sign of progress or procrastination?

Was not Brazil's debt rescheduled on several occasions before it announced this weekend that it would indefinitely postpone further payments on its debt?

SECRETARY BAKER: The $70 billion figure you note covers reschedulings by commercial banks only. Official creditors have rescheduled over $14 billion in payments owed by these same countries.

The intent of reschedulings is to provide the debtor country a "breathing space" in which it can put in place a program to enhance its ultimate repayment prospects. Consistent with this approach, official creditors typically condition a rescheduling on development by the country of an economic adjustment program, generally one which has received endorsement from the IMF. Commercial banks have frequently followed the same approach.

In many cases a country's adjustment effort can realistically be expected to take several years. In such cases, it is by no means unusual for there to be more than one rescheduling. The existence of such sequential reschedulings does not necessarily mean that the country is fundamentally uncreditworthy. Turkey, for example, had three consecutive reschedulings of its official debts during the 1978-80 period.

In the case of Brazil, official creditors rescheduled their debts twice in the last four years. Commercial banks have also rescheduled Brazil's debt several times since 1983. We are confident that implementation of sound economic policies by the Brazilian Government will significantly enhance that nation's creditworthiness.

MILITARY VS. ECONOMIC ASSISTANCE

SENATOR INOUYE: Mr. Secretary; You have correctly identified the resolution of the world debt situation as one of our most critical foreign policy objectives. Since 1980, the President's foreign aid requests have shifted from predominantly economic aid to predominantly military aid.

Has this shift from economic aid to military aid, detracted from or supported your efforts to address the international debt crisis?

SECRETARY BAKER: It is a misstatement that the President's foreign aid requests have become predominantly military rather than economic in nature. The Reagan Administration has increased foreign assistance of all types over Carter Administration levels. Accordingly, our requested amount for the Multilateral Development Bank (MDBs) has never been greater, once the prior figures are adjusted to allow for the changed budgetary treatment of callable capital. Additionally, the percentage share for the MDBs in total foreign assistance is virtually unchanged, after adjusting for the changed budgetary treatment of Foreign Military Sales (FMS), that was necessary for the financial management of this program.

During the last full year of the Carter Administration (FY 1980), adjusted budget authority for the MDBs was $1,478 million. This was 13.25 percent of total adjusted foreign assistance of $11,152 million. For FY 1988 this Administration is requesting

$1,819 million for the MDBs, an increase of $341 million over the FY 1980 level (excluding MDB callable capital). The $1,819 million for the MDBs represents 12.5 percent of total requested foreign aid budget authority of $14,537 million for FY 1988, a decrease of only 0.75 percent from the FY 1980 share (after all necessary accounting adjustments).

Moreover, the relatively small shifts which have occurred in the proportions of American foreign assistance have had virtually no effect upon our efforts to address the international debt issue. Debtors in Latin America were not large recipients of U.S. bilateral assistance even prior to the emergence of debt problem. As you know, we are continuing with a major bilateral aid program for the Philippines. Finally, MDB lending to these key debtor countries is now much larger than it was during the Carter Administration.

SPECIFIC MDB ACTION'S TO IMPROVE ENVIRONMENTAL PERFORMANCE

SENATOR INOUYE: Last year's legislation mentions several means by which the banks can improve the environmental soundness of their loans. One would be to add additional staff trained in natural resource conservation. A second would be to increase the authority of the environmental units, such as they exist, within each multilateral lending institution. A third would be to create career incentives to reward bank employees who enhance the performance of the banks in this regard.

Keeping in mind the various options available to them for doing so, how would you assess the banks' efforts to improve their performance over the past twelve months?

SECRETARY BAKER: In comparison with two or three years ago, there has been a sea change in the attitudes which the banks exhibit in regard to the environmental aspects of their activities. In general, each bank is engaged in a reassessment of its respective approach to analyzing and devising techniques to address these issues.

The frequency of policy level discussions within the banks, the openness of the institutions to serious discussions with interested outside groups and the amount of information provided to member governments and, to a more limited extent, to members of the public -- all suggest the changing attitudes.

Translating these attitudes into concrete organizational steps is also occurring with some lag. The World Bank is preparing a promising reorganization of its structure to manage environmental aspects of its programs. The Inter-American Development Bank has called a meeting for May 1987 where agencies in borrowing countries with environmental responsibilities will be brought together to discuss with Bank staff how coordination can be strengthened. The Asian Development Bank convened a similar meeting in its region in February 1986, drawing on knowledgeable persons from non-governmental organizations as well. The African Development Bank has taken the initiative at the highest level to spark discussion within the Bank and with outside groups.

SENATOR INOUYE: Have any of the specific options been exercised? If so, in which banks?

SECRETARY BAKER: All the banks have taken some steps to strengthen staff resources. The Executive Directors of the World Bank have approved eight new staff positions to deal with environmental matters in its fiscal year 1988 budget for the year beginning July 1, 1987. Until the Bank's reorganization plans are clarified, these positions should be viewed as an indication of intent to strengthen the Bank's performance.

The act of voting on a proposal is far too late to influence the nature of the project at hand. More importantly, voting is the most visible public act which our representatives perform with regard to a project. If voting guidelines were adopted, there would be a strong suspicion that such guidelines would be for the purpose of making a publicly visible point for domestic consumption, rather than working with the banks to achieve improved performance. Such a suspicion -- whether justified or not -- would act to cast doubt on the seriousness of the technical points that we would be making regarding the design of the hydro-electric project at hand.

This is the basis for our general opposition to the adoption of rigid guidelines to determine votes on loan proposals.

There are instances where voting guidelines are a necessary measure -- especially, when we have reached the conclusion that design or implementation practices would be unlikely to change in the absence of an uncompromising, clearly proclaimed standard. Such instances have arisen in the past, but are not the rule.

In the case of hydro-electric projects, we have not lost hope that design and implementation practices will be modified on the basis of persuasion. The abatement in the international price of energy has contributed to allowing a more thoughtful and methodical planning process for hydro-electric projects. We are hopeful that the banks will use this respite to consider more carefully the measures that appropriately should be included in future projects. Alternatives to additional hydro-generating capacity should also be systematically explored.

In the case of the Inter-American Development Bank, there is some evidence that greater attention is being placed on resettlement, water quality, geological and seismic analysis, and riverine and delta effects on wildlife. We are not inclined toward pursuing voting guidelines in this circumstance.

SENATOR INOUYE: Furthermore, has the Department of the Treasury discussed with the Inter-American Development Bank the amount of resources that the Bank intends to devote to hydro-electric power in the future?

SECRETARY BAKER: We have not had discussions regarding the overall lending levels, although we have had extensive discussions on selected projects in the planning or implementation stages.

CONSISTENT GUIDELINES ON LIVESTOCK PROJECTS

SENATOR INOUYE: Mr. Secretary, over the past year, the World Bank livestock sector loan to Botswana has drawn a great deal of attention because of the serious negative effects that it has had on local natural resources and social systems. As a result, the Department of the Treasury developed guidelines to direct U.S. votes on future loans in the livestock sector in Africa.

If we switch continents, and focus our attention on Central America, we note that the Inter-American Development Bank now is providing funds to the cattle industry in Panama.

Given that this industry is one of the leading causes of deforestation in Panama and the rest of Central America, has the Department of the Treasury given any thought to developing similar guidelines for livestock sector loans in Central and South America? If so, how effective are they?

SECRETARY BAKER: The particular social, political and ecological circumstances in Africa were unique and especially difficult. The high risk of desertification, the competition with herbivorous wildlife and the role of livestock in social relations were markedly

different in that continent as compared to elsewhere in the developing world.

The situations in Central America and South America are quite different. Activities in the livestock sector and in other elements of the agricultural sector have been associated with deforestation. Singling out the livestock sector would not effectively address the need to improve management of the design and implementation of development activities in tropical forests.

A broader approach is needed and should be forthcoming from the efforts in which we are engaged to develop guidelines on projects in tropical forests, as proposed by the Sierra Club and the Natural Resources Defense Council. In preparing these guidelines, we are working with the staffs of the Sierra Club, the Natural Resources Defense Council, the International Institute for Environment and Development and other organizations.

ENVIRONMENTAL ISSUES IN REPLENISHMENT NEGOTIATIONS

SENATOR INOUYE: Mr. Secretary, over the past several months, the United States has been involved in replenishment discussions with members of the Inter-American Development Bank, and other multilateral lending organizations.

To what extent has the environmental performance of these organizations entered into these discussions?

SECRETARY BAKER: In March 1986, the U.S. representative to the IDA Deputies meeting which was considering the Eighth Replenishment for the International Development Association urged that the environmental aspects of the IDA lending program be strengthened. In the ensuing discussion, there was broad support for guidance along these lines to the Association.

Consequently, the report on the Replenishment from the Executive Directors states as follows in paragraph 4.10:

> Donors also discussed, in the context of the use of IDA resources, the environmental aspects of IDA's lending program. They urged that enhanced attention be paid by management to environmental concerns. They welcomed the current initiatives being taken by management to address this situation. Such initiatives included the emphasis the Association was placing on the management of natural resources by ensuring that the environmental questions were fully considered in projects financed by IDA and by ensuring that these issues were integrated into country economic work.

At the request of a donor country, the Inter-American Development Bank prepared a paper for the March meeting of the Committee of Governors convened to consider the replenishment of resources for the Bank.

The U.S. representative to the meeting stated as follows:

> We have two principal proposals to make in connection with the paper on environmental protection prepared for this meeting.
>
> First, it should form an integral part of the report of the Committee of Governors.
>
> Second, Section C, currently dealing with the "Outlook" for the future should be revised, retitled "Outlook and Planned Actions" and expanded to include the following steps:

The Executive Directors shall review and authorize any necessary staffing changes to manage environmental aspects of Bank operations by December 31, 1987. The proposal which the U.S. Executive Director presented in 1986 for two additional environmental analysts and one anthropologist should be specifically included.

In addition, the desirability of the formation of a line unit reporting directly to the Chairman of the Committee on Environmental Management should be reviewed by the Executive Directors at the same time as their review of necessary staffing changes. The line unit could include current staff members with a high degree of operational responsibility for reviewing environmental aspects of Bank projects and the three additional positions.

The paper for the Committee's report should describe how a line unit can effectively support the work of the Committee on Environmental Management.

The Bank will include an environmental assessment as an integral part of the preparation of country strategies.

The Bank will review and take the conclusions of these environmental assessments into account in formulating policy proposals in borrowing countries in connection with any policy-based loans. We would expect policy-based loans that depend on use of natural resources for successful implementation to include policy measures to ensure that resources will be managed in a sustainable fashion.

The discussion of environmental training for Bank professional staff (paragraph 3.04) should be expanded and an annex added which specifies past training activity. The discussion should also describe how the training has been tailored to meet the needs of professional economists and financial specialists who have little previous training in environmental issues.

The discussion in paragraph 3.06 related to investment opportunities geared toward protection of natural resources should be greatly expanded, should indicate specific types of projects which the Bank foresees financing, and should call for an increase in the proportion of total lending devoted to environmentally beneficial projects. An appropriate addition to the list in paragraph 3.37 of Chapter III should be added.

Finally, we should compliment the Bank on its initiative in convening the Meeting of Consultation with Public Agencies Responsible for Environmental Protection and Natural Resources in May of this year. This Meeting should lead to strengthening coordination between the Bank, borrowing country agencies traditionally involved in project planning and implementation and

agencies responsible for environment and natural resources. We particularly believe the inclusion of selected non-governmental organizations to be an important positive step.

SUPPORT FOR LOCAL NGO'S ON ENVIRONMENTAL ISSUES

SENATOR INOUYE: Experience in development assistance over the past several years suggests that working through nongovernmental organizations (NGOs) may be preferable in many instances to working through governments. Many of the multilateral banks now contract for services with private businesses.

What progress have they made in involving local NGOs in the development process?

SECRETARY BAKER: There continues to be a need for a more systematic practice of consulting nongovernmental organizations that are capable of providing information to strengthen the project design and implementation process. In many instances, nongovernmental organizations can monitor, evaluate or even carry out project activity.

The staffs of the multilateral development banks, at times, involve such organizations in project activity. However, the practice depends heavily on the initiative of individual staff members and should become a systematic part of the project planning process.

SENATOR INOUYE: Has any thought been given to using intermediary organizations to locate appropriate NGOs in borrowing countries?

SECRETARY BAKER: The Treasury Department utilizes U.S. NGOs in that manner when we find a need to obtain rapid, independent information on the situation in developing countries. The banks are aware that intermediary nongovernmental organizations can supply such information. We hope to see more systematic use of this resource.

SENATOR INOUYE: Is it not possible for the banks to require, as part of their conditionality process, a greater role for NGOs in the borrowing country?

SECRETARY BAKER: The answer is "yes," but is not so simple. The ideal toward which we are working ultimately is full participation by nongovernmental organizations and other interested members of the public in the design and implementation of development activities within developing countries. This conforms with our desire to see democratic norms adopted and with our conviction that early and broad participation in project preparation leads to better developmental results.

Clearly, political institutions are not functioning in all countries to allow such an outcome. However, we hope the banks will use opportunities that present themselves to advance this ideal.

In effect, there are instances where the banks have been instrumental in supporting such institutionalized public participation. The Inter-American Development Bank has participated in and supported public discussion of aspects of a road project in the state of Acre in Brazil. The IDB and the World Bank have supported and participated in public meetings in Colombia in connection with the Urra II dam project. The current World Bank Electric Sector loan in Brazil had, as a condition for second tranche disbursement, the preparation of an acceptable master plan for environmental review which is expected to include a public hearing process, tailored to Brazilian institutional development. Other examples could be cited.

It is in this broad sense of encouraging public participation that we have been implementing the legislation related to non-governmental organizations in the Foreign Assistance and Related Programs Act, 1987.

Questions Submitted by Senator Leahy

MICRO-ENTERPRISE CREDIT

SENATOR LEAHY: Mr. Secretary, last year you told this subcommittee that a major role of the Multilateral Development Banks (MDBs) should be to encourage macroeconomic policy reforms in the developing countries. You also said the MDBs "are doing much more to promote the private sector."

One of the things I have been concerned about is the failure of the MDBs to focus on micro as opposed to macro, economic policies, particularly within the private sector.

World Bank President Barber Conable seems to agree with me. He recently said:

". . . Our assumptions have been imperfect, our results uneven. Macroeconomic planners have slighted the growth that comes from the bottom up.

". . . In developing nations . . . too many women are at the bottom. Their arms hold the family together. Their hands build the foundation of stable, growing communities.

"But development efforts have not lent enough strength to those arms, have not entrusted enough resources to those hands. And along with women, development itself has suffered ..."

Do you agree with Mr. Conable? Why haven't the MDBs directed more of their resources at the people on the bottom?

What effort is the Administration making to encourage the MDBs to promote growth from the bottom up, especially within the private sector? How have the MDBs responded?

SECRETARY BAKER: We agree that growth should be promoted among the poorest, especially within the private sector. The World Bank, in particular, has responded by paying special attention to the impact of economic adjustment programs on the poor.

In the early 1980s, the IBRD broadened its support for adjusting countries to include a more direct concern with the social effects of adjustment. The Bank is addressing the needs of the "people on the bottom" in two ways. One way is by helping countries to incorporate in their adjustment programs improvements in the efficiency and poverty focus of social expenditures, particularly in health and education. The second way is by helping to develop cost-effective compensatory programs in adjusting countries -- particularly in the areas of nutrition and employment -- in coordination with other agencies and with local and international non-governmental organizations (NGOs).

SENATOR LEAHY: What percentage, and what dollar amounts, of the MDBs' lending during the past five years has been for this purpose? Please describe MDB activities in support of micro-enterprise in the private sector during this period.

Legislation now pending in Congress would require a portion of our foreign economic and development assistance, or a portion of Section 108 funds in Title I of PL-480 to be used for local currencies for private enterprise among the poorest people in the developing countries? Do you support this kind of bilateral initiative to promote growth from the bottom up? What future role do you see the MDBs playing in supporting this kind of micro-enterprise? We would have to consider any specific legislation that is now pending in Congress on its own merit, however.

SECRETARY BAKER: While we do not have specific dollar amounts of all MDB lending for micro-enterprise activities, the MDBs' approach to poverty alleviation has traditionally emphasized economic growth and the efficient use of resources. This approach has contributed to the creation of numerous employment opportunities and higher average incomes, and has helped make additional revenues available for governments to invest in improving the welfare of the poorest.

The IDB has a grant program from small projects that typically lends around $7-$8 million annually. Since its inception in June of 1978, the IDB's Program for the Financing of Small Projects has provided credit and technical assistance resources to support micro-enterprises in Latin America. Specifically, in the last five years, funds have been provided through thirty-one intermediary organizations to establish new micro-enterprise programs or to expand existing ones; seventeen of these also received parallel technical assistance grants, principally to provide institutional strengthening to the organizations themselves, and/or to provide direct training to the project beneficiaries. Basically, these micro-enterprises which benefit from the Program's resources typically employ one-to-ten individuals, with five employees generally constituting the average. These figures may be compared for purposes of illustration to the IDB Program's overall level of approvals to date. In terms of operations, a total of 155 financings and 117 technical assistance grants have been approved through February 28, 1987. Over the last five years, a total of approximately U.S. $11.7 million in credit and over U.S. $870,000 in technical assistance have gone to micro-enterprise programs, specifically, as compared to Program approvals of U.S. $66.1 million and U.S. $7.0 million for credit and technical assistance, respectively, during the same period.

We would like to have a thorough evaluation of the IDB's program before endorsing similar programs elsewhere.

Questions Submitted by Senator DeConcini

IMPROVING GROWTH IN DEVELOPING COUNTRIES

SENATOR DECONCINI: Mr. Secretary, it appears that the U.S. assistance objective of helping less developed countries improve their economies by encouraging exports faces serious problems. The United States wants democratic governments, political stability and economic development for friendly developing countries. However, many countries such as those in Latin America, are overburdened by external debt to U.S. banks, among others, and face restrictions on exports to the United States (e.g., shoes, textiles). Given the concern over the U.S. trade deficits and the growing protectionist environment in the United States, what strategy does the Treasury plan to follow to attempt to improve the economies and development in recipient countries?

SECRETARY BAKER: The Treasury is pursuing policies on several fronts that benefit the developing countries. Under the strengthened debt strategy, we are encouraging the debtor nations to initiate growth-oriented reforms, including both macroeconomic and structural elements, supported by modest increases in financial flows from the international financial institutions and the commercial banks.

Efforts are also underway to achieve stronger growth in the industrial countries and to open global markets through new multilateral trade negotiations. At a recent meeting in Paris, agreement was reached on concrete steps to promote global exchange rate stability. These measures should help improve the prospects for a sound, growing economy, which is essential to support the debtor nations' own efforts to establish sustained growth.

The major debtors are already benefitting from these efforts in terms of stronger growth and trade. Their real growth rate is expected to average 3.5 percent this year, the highest since 1980, and a significant improvement over 1983, when the major debtors experienced negative growth of 3.5 percent. Import volumes are also projected to increase by more than 3 percent this year, the best performance in 6 years, while export volumes should also grow by about 3 percent.

CONNECTION BETWEEN BUDGET DEFICIT AND TRADE DEFICIT

SENATOR DECONCINI: There has been a great deal of talk lately about connecting the budget deficit with the trade deficit. Speculation centers on the idea that both must be addressed in order to bring about sustained economic growth in the U.S. How can we target this type of dual strategy given Gramm Rudman cuts, and what type of programs in the international affairs accounts (150) specifically increase our export ability? What addresses our ability to leverage unfair trading practices?

SECRETARY BAKER: One obvious approach is to emphasize programs that will increase the ability of developing countries to import more from the United States. This would help reduce our trade deficit and could also reduce our budget deficit somewhat by increasing GNP growth.

The MDBs, of course, play an important role in fostering the sustainable growth that would enable Third World countries to increase their imports from the United States and others, both through policy guidance and project support. By supporting structural reforms the MDBs, particularly the World Bank, can convince developing countries of the need to adopt more market-oriented policies and liberal, open trading practices to enhance the effectiveness of Bank projects.

Finally, while these institutions comprise only about ten percent of Function 150 in the U.S. budget, they are extremely cost effective -- always an important attribute, but particularly so in this tight budgetary environment. We would have to place the international financial institutions in Function 150 at the core of U.S. Government efforts to stimulate global growth-- the most solid step we can take to stimulate our export ability.

HUMAN RIGHTS IN CHILE

SENATOR DECONCINI: Chile has been allowed to "retime" their debt payments in one lump sum. What is your opinion about this given Chile's dismal human rights record?

SECRETARY BAKER: The retiming of payments on the commercial bank loans was basically a matter between the Government of Chile and the commercial banks who were represented by Chile's Bank Advisory Committee. The commercial banks accepted Chile's request for retiming as an alternative to new financing. As this is a commmercial bank matter, there is no direct connection between the retiming agreement and Chile's human rights situation. As you know, the United States recently has been abstaining on human rights grounds on multilateral development bank loans to Chile that do not meet basic human needs.

Questions Submitted by Senator Lautenberg

U.S. VOTING IN THE MULTILATERAL DEVELOPMENT BANKS

SENATOR LAUTENBERG: Secretary Baker, under existing law, the United States is required to use its voice and vote in the multilateral development banks to channel assistance away from countries who provide refuge to individuals committing acts of international aircraft hijacking.

What is our policy with respect to multilateral development bank loans to countries on the Secretary of State's terrorist list? (Syria, South Yemen, Cuba, Libya and Iran)

SECRETARY BAKER: Recently, we have been opposing by means of absentions all multilateral development bank loans to Syria and Yemen (PDR) on the basis of human rights considerations. Cuba is not a member of any of the multilateral development banks and does not receive any loans. Libya and Iran are members but they have not received by multilateral development bank loans in recent years. Libya has never borrowed and Iran's last loan was approved in 1974.

SENATOR LAUTENBERG: Last year the World Bank approved two loans totalling $77.5 million to Syria, a country that has been on the Secretary of State's terrorist list since 1979. As you know, any country on that list has been found by our government to provide consistent State support for terrorist.

The United States Executive Director abstained on these loans on the grounds that Syria violates human rights. Was any consideration given to voting no on these loans because Syria is on the terrorist list?

SECRETARY BAKER: I don't know what transpired in all the discussions of that particular case. I can tell you that an abstention is opposition to a loan. Sometimes we vote "no" sometimes we abstain. An abstention can clearly not be counted as part of the support that is necessary for a loan's approval.

SENATOR LAUTENBERG: Would we do so in the future?

SECRETARY BAKER: It would seem to me that consideration could certainly be given to that position in the future. An appropriate policy might be to say simply that we would vote "no," on all loans to such countries. However, I don't know all the factors that might have to be taken into account.

SENATOR LAUTENBERG: Would you support an amendment to the foreign assistance bill requiring the U.S. Executive Director to oppose loans to terrorist countries in the future?

SECRETARY BAKER: I would rather not see us load the legislation up with a lot of provisions to try to micro-manage what we do there. Because there could come a time, I suppose, where there might be a reasonable basis for an exception, if you had a country that was moving away from that and you wanted to encourage them to move further and so forth.

SENATOR LAUTENBERG: Is it justified, in your view, to work and vote against loans to countries that abuse human rights, but not against countries that support and sponsor terror?

SECRETARY BAKER: As I have indicated we have been opposing loans to countries on the terrorist list on human rights grounds.

SENATOR LAUTENBERG: Is a country's support for terrorism as abhorent to U.S. foreign policy as a country's gross abuse of human rights?

SECRETARY BAKER: Certainly. I could not agree with you more. Both conditions are clearly abhorent to our policy.

VALUE OF THE DOLLAR

SENATOR LAUTENBERG: Secretary Baker, we've heard a lot about how the dollar's drop in value against the yen and the mark would improve our trade position.

But as you know, while the dollar has been falling, our trade deficit with the Asian countries of Taiwan, Korea and Hong Kong has continued to rise.

What is the Administration planning to do to bring the currencies of these countries down?

SECRETARY BAKER: We have been holding quiet talks with a few of these countries, impressing upon them the seriousness of this situation and the necessity for change in both their currency and market access policies.

The newly industrialized economies (NICs) of Asia have benefited significantly from open markets, particularly in the United States.

However, for the most part, they have not assumed the reciprocal responsibilities to ensure the continued openness of the world trading system.

Some of their currencies do not reflect underlying economic fundamentals. It is natural to expect currencies to appreciate as current accounts run higher surpluses.

In fact, the NICs have taken advantage of the decline in the dollar against the currencies of the countries which participated in the Plaza agreement to strengthen their competitive position.

Also, some of the NICs still maintain restrictions on both foreign trade and investment despite vastly improved trade and current account balances.

72-981 O - 87 - 3

Questions Submitted by Senator Kasten

PROPOSAL ON FMS DEBT

SENATOR KASTEN: Mr. Secretary, the FMS proposal that you and Secretary Shultz have developed, as the Chairman mentioned, has not been well received by the countries it was intended to help -- especially Egypt and Israel. I will not criticize your proposal -- it clearly has merit and meets one of the principal concerns that Senator Inouye and I have had -- that any solution not get bogged down in domestic politics of the U.S. Congress.

Do you believe there are ways to change the U.S. proposals so that the principal potential users will find it acceptable?

Specifically, is there a method whereby the interest which is capitalized is not itself subject to interest? The U.S. would still get loan repayments equal to the original total amount.

What about the possibility, under the prepayment part of the proposals, of transferring the government guarantees to private financial institutions which would finance the FMS debt under the part of the proposal?

SECRETARY BAKER: As you are aware, we exhaustively examined all possibilities in this area and came to the conclusion that our approach was the most appropriate and feasible. In this regard, we considered the two specific approaches you outlined and found them deficient.

It is essential that interest be charged on any interest deferred in order that the full value of the FMS loan be recovered. Otherwise, we would need to seek budgetary authority to make the Federal Financing Bank (FFB) whole.

With respect to transferring of existing guarantees on FMS loans to allow private financial borrowings for prepayment, using United States' guarantees to finance borrowings outside of the FFB is counter to Administration policies. Further, the Defense Department interprets the Arms Export Control Act as requiring that guarantees issued pursuant to the Act must only be used to purchase arms. This interpretation precludes using the Defense Department guarantee for refinancing purposes. Therefore, we concluded that transferring the guarantee is not feasible.

We are convinced that our approach is the best one as it carefully balances our national security interests against what is feasible and appropriate. We are currently engaged in discussions with a number of countries regarding the implementation of this proposal. We are attempting to be as flexible as possible in trying to deal with their concerns while operating within the context of our proposal.

WORLD BANK LOAN REVIEW PROCESS

SENATOR KASTEN: Mr. Secretary, what progress is being made in extending the period for Board review of potentially damaging projects from 2 to 4 weeks at the World Bank?

SECRETARY BAKER: The U.S. Executive Director at the World Bank was instructed to propose this matter to Management and other Director on February 12, 1987. We are awaiting the reactions to this proposal.

AVAILABILITY OF MDB DOCUMENTATION

SENATOR KASTEN: Mr. Secretary, what progress has been made in granting other donor nations the same access to bank documents as is available to the United States?

SECRETARY BAKER: To our knowledge, other member governments have now, and have always had, the same access to bank documents as officials of the United States Government. We know of no procedure which favors us nor would we support or seek such a procedure.

Undoubtedly, the presence of two of the four multilateral development banks in Washington facilitates communication between these two banks and the United States Government, but this does not constitute more favorable access.

INTER-AMERICAN DEVELOPMENT BANK REPLENISHMENT

SENATOR KASTEN: Mr. Secretary, are you prepared to recommend, in the event that the reforms we are seeking in the Inter-American Development Bank do not go forward, that funding slated for that institution instead go the World Bank?

SECRETARY BAKER: In the event that IDB members choose not to have the Bank enter into the area of policy conditioned lending, we intend to ensure that the World Bank has sufficient resources to carry out that task. Nevertheless, that would not necessarily mean that the funding now slated for the IDB would then go to the World Bank.

If members choose not to change the role of the IDB, the Bank would still need resources to lend for projects in the poorer countries of Latin America and the Caribbean. This would not require the same amount of funding however.

Questions Submitted by Senator D'Amato

REDUCING TRADE BARRIERS IN DEVELOPING COUNTRIES

SENATOR D'AMATO: Many of the debtor nations are also the most flagrant violators of fair trade practices. When encouraging debtor nations to move toward a more market economy, are they also encouraged to substantially reduce import barriers?

SECRETARY BAKER: Yes, they are. In fact, in this context, legislation passed last year (Sec. 555 of the FY 1987 Appropriations Act) fits well with the Administration's objective of reducing developing countries' trade barriers and unfair trade practices. We have been working closely with USTR to develop procedures to implement this legislation.

Whenever any non-project (policy-based) MDB loan is being considered for approval, we plan to rely on USTR's expertise and data base regarding trade barriers to help us evaluate the loan. Such loans would now be analyzed, in addition to our other criteria, in terms of whether their conditions will effectively reduce trade barriers in the borrowing country. This additional criterion would be incorporated into the normal review process of the Inter-Agency Working Group on Multilateral Assistance (WGMA), which is charged with giving recommendations regarding projects and lending policies to the Secretary (or his deputies) for instructing U.S. Executive Directors to the MDBs.

INTERNATIONAL DEVELOPMENT ASSOCIATION LOAN TERMS

SENATOR D'AMATO: By dropping the maturity rate for International Development Association (IDA) loans by 10 years for the poorest nations, and 15 years for the rest, wouldn't IDA loans become more burdensome to developing nations, thus aggravating an already acute foreign debt problem?

SECRETARY BAKER: Current IDA terms carry a 50 year final maturity, a 10 year grace period and no interest (although there is a service charge of 0.75% a year on the disbursed balance). With the exception of a new commitment fee instituted in 1982, the terms of IDA credits have remained unchanged since its inception in 1961. Economic developments since 1961 have undergone major changes and this called into question whether IDA had over time become an excessively concessional facility. Thus there was support for some hardening of IDA's terms during the replenishment negotiations.

Donors reached an agreement that under the Eighth Replenishment, final maturities on IDA credits be reduced from 50 years to 40 years for least-developed recipient countries and to 35 years for other recipients. Grace periods will be maintained at 10 years for all countries. The resulting change in the grant element of the credits as a result of this hardening is not large. The grant element at the present terms is 81 (based on the Development Assistance Committee formula for measuring grant elements). For 40 year maturities the grant element would fall to 77 and for 35 year maturities it would fall to 74. Thus IDA credits would still remain highly concessional, and as such, are not likely to aggravate the debt problem.

Furthermore, the hardening of terms will lead, over time, to a more rapid recycling of IDA resources, thus enhancing the Association's ability to redirect its funds to those areas of greatest need. Faster reflows will be entirely recycled as new credits and in the longer term this implies that those countries which remain IDA eligible will benefit from the enhanced volume of new commitments. In contrast, those countries which pay harder terms but in the longer

term graduate from IDA will not benefit from the reflows.

ROLE OF THE MULTILATERAL INVESTMENT GUARANTEE AGENCY

SENATOR D'AMATO: Could you describe for this committee the role of the Multilateral Investment Guarantee Agency (MIGA) and how it will differ from the International Finance Corporation, also a World Bank Program?

SECRETARY BAKER: The MIGA is designed to encourage the flow of investment to and among developing countries. It will do so by:

-- issuing guarantees to eligible investors against non-commercial risks associated with their investments in developing countries;

-- promoting improvement in the climate for investment in developing countries, in part, by providing advice and technical assistance; and

-- carrying out a wide range of promotional activities, such as supplying information on investment opportunities to foreign investors.

The IFC also promotes foreign investment in the developing countries, but it differs from MIGA insofar as it has a broader mandate, encompassing domestic investment in those countries as well, and it has a different set of tools. In general terms, IFC's mission is to help promote and assist private enterprises in developing countries. It accomplishes this by playing a catalytic role in bringing together and harmonizing the diverse interests involved in an enterprise — domestic and foreign sponsors, financial institutions and investors, technical partners, and host governments. In financial terms, its participation may take the form of equity investments or loans. It also works (1) to create a better investment climate by providing technical assistance on issues such as pricing and market allocation and (2) to encourage capital flows through the establishment or expansion of local capital markets and financial institutions.

SUBCOMMITTEE RECESS

Senator INOUYE. With that understanding, I thank you very much for spending this time with us. I hope that we have been able to have some of the questions we have had answered. And I can assure you, sir, as one Senator that I will do my best to see that your program is carried out.

Secretary BAKER. Thank you very much, Mr. Chairman.

[Whereupon, at 10:47 a.m., Tuesday, February 24, the subcommittee was recessed, to reconvene on Thursday, February 26.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1988

THURSDAY, FEBRUARY 26, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m. in room S-126, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Kasten, and Nickles.

DEPARTMENT OF THE TREASURY

STATEMENT OF JAMES W. CONROW, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS, DEPARTMENT OF THE TREASURY

OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. The subcommittee will come to order. This afternoon we will continue our examination of the President's request for fiscal year 1988 funding of U.S. contributions to the Multilateral Development Banks.

Earlier this week on Tuesday, Treasury Secretary Baker provided the subcommittee with the overall justification for U.S. participation in the MDB's His testimony focused on the overarching economic and foreign policy issues which set the framework for our contributions to the World Bank and IDA and to the Regional Development Banks as well.

Today we seek to probe more deeply into the actual operations of the MDB and we are most fortunate to have with us the senior official in the Treasury Department who actually supervises the day-to-day interactions between the United States and MDB's. Mr. James Conrow, who is the Deputy Assistant Secretary of the Treasury for Developing Nations, is the point man for the United States in replenishment negotiations. He is the man who we rely on to insure that member countries are aware of and respond to U.S. concerns.

On behalf of the committee—and there are not many of us—we welcome you to the subcommittee. We are in need of your knowledge and your understanding of how the United States can best achieve its objectives in these institutions.

We have received your full statement and without objection it will be made part of the record in total. The floor is yours, sir.

FISCAL YEAR 1988 BUDGET FOR MDB'S

Mr. CONROW. Thank you very much, Mr. Chairman. I will try to be very brief in summarizing my statement for you this afternoon.

Mr. Chairman, we very much appreciate the opportunity to appear before you today to continue the presentation of the administration's fiscal year 1988 request for the Multilateral Development Banks. Presenting our appropriation request of $1.8 billion for the development banks on Tuesday, Secretary Baker outlined our basic approach to international economic cooperation and the role of the development banks.

Secretary Baker has discussed the role that the World Bank is playing to address our contemporary debt issues. If properly oriented, the Regional Development Banks can play an important supportive role in the international community's efforts to restore sustained growth in the developing countries.

Our objectives in the recent Asian Development Fund and African Development Bank replenishment negotiations and in the continuing negotiations for the Inter-American Development Bank have been squarely directed toward such a role for these programs. Our success thus far justifies the amounts we are requesting for the fiscal year 1988.

ASIAN DEVELOPMENT BANK AND FUND

Let me first begin with the Asian Development Bank [ADB] and Fund [ADF]. In April of 1986, the developed countries that contributed to the Asian Development Fund, along with a few developing country donors, agreed on a 4-year $3.6 billion replenishment of the concessional window of the Asian Development Bank. The ADF lends to the poorest countries in the region, primarily in South and Southeast Asia, with Pakistan, Bangladesh and Sri Lanka likely to receive more than half of these resources.

The U.S. share will be 16.23 percent, the same as in the previous replenishment, and second to Japan's 36.7 percent share. The total amount of the U.S. contribution will be $584.3 million.

The administration's request for fiscal year 1988 includes $146 million for the first of four payments under the new replenishment and $72.9 million to complete the U.S. contribution to the previous replenishment, for a total request for the Asian Development Fund of $219 million.

In my statement, Mr. Chairman, I have included a number of the reforms that we have sought in our negotiations with other members of the Asian Development Bank. I will not repeat them now.

To complete the U.S. subscription to the most recent capital increase of the Asian Development Bank's hard window, the administration is requesting $15.1 million in budget authority for paid-in capital and $276.5 million on the program limitations which do not entail budgetary outlays for subscriptions to callable capital.

I should add at this time that the 1983 capital increase for the hard window has provided resources for a longer period than anticipated. As a consequence, if the administration's request is fully funded in fiscal

year 1988, there will be no request required for budget authority for the hard window in fiscal year 1989.

AFRICAN DEVELOPMENT BANK AND FUND

Let me now turn to the African Development Bank [AFDB] and Fund [AFDF]. In November 1986 the member governments agreed to the fourth general capital increase of the Bank's ordinary capital resources which would raise the authorized capital from $6.4 billion to $19.4 billion, with 6.25 percent of the increased resources to be in paid-in.

This capital increase should support a 5-year lending program of $6 to $7.8 billion from 1987 to 1991 and will also substantially strengthen the Bank's financial structure.

During the negotiations of this capital increase, we were able to secure several changes designed to improve the operations of the Bank. The U.S. share of the recently negotiated capital increase is $719.6 million with $45 being in paid-in capital.

The administration's request for 1988 is for the first of five equal installments and consists of $9 million in budget authority for paid-in capital and $134.9 million under program limitations for callable capital.

The administration is also seeking $90.4 million to complete contributions to the 1985 replenishment of the African Development Fund.

In addition, Mr. Chairman, the administration is seeking a supplemental appropriation for fiscal year 1987 of $6.5 million in budget authority for paid-in capital and $17.4 million under program limitations for subscriptions to callable capital, and $36.6 million in budget authority for the African Development Fund. These resources are critically needed to strengthen Bank and Fund lending during the current year.

INTER-AMERICAN DEVELOPMENT BANK

Now, Mr. Chairman, I would like to spend a few minutes with you discussing the Inter-American Development Bank [IDB] negotiations. These negotiations for the Inter-American Development Bank's seventh general capital increase are continuing, but I would be less than candid if I did not tell you that we are disappointed with the progress of those discussions. In our view, the Bank should play a strong, prominent role in assisting the countries of this hemisphere to address their developing needs, especially the priority task of sustained growth in debt burdened countries.

Last week, I represented the United States in the seventh formal meeting since last March to discuss the changes that are needed in the Bank to allow it to play such a role. I have also participated in numerous informal meetings. While we have achieved some progress, a final resolution to the negotiations has eluded our efforts.

AREAS OF AGREEMENT

On the condition that outstanding issues are resolved satisfactorily, agreement has been reached in some important areas. These include: (1) a lending program in the $20 to $25 billion range in 1987 through 1990; (2) 20 to 25 percent of the lending program in the form of policy-conditioned sector lending; (3) a strengthened country programming structure within the Bank so that operations can concentrate on those sectors and projects that would have the greatest impact on sustained economic growth and social progress; and (4) a concentration of concessional resources from the Fund for Special Operations on the poorest countries, countries such as Bolivia, El Salvador, Guyana, Haiti, and Honduras.

With regard to three additional issues, agreement on operational details has not been reached, but there seem to be no significant obstacles and we are optimistic about the prospects. These would include operational definitions and procedures to guide the formulation of country programming strategies; operational definitions and procedures to guide sector lending; and reorganization of the Bank's internal structure to facilitate preparation of country programming strategies and sector lending activities.

RESTRUCTURING OF IDB VOTING PROCEDURES

However, Mr. Chairman, one issue has remained outstanding: the restructuring of voting procedures so that representatives of the member countries which provide the vast bulk of the Bank's usable resources—through budgetary transfers or through access to domestic capital markets—can exercise more authority over loan quality. The United States, Canada, and the Bank's non-regional members in Europe and Asia provide over 90 percent of usable resources.

The administration's basic posture is not, as some quarters have said, that the voting issue must be resolved to our satisfaction or the United States will not participate in any replenishment. Rather, it is a question of the size of the replenishment: implementing voting procedures that give more effective control to member countries that provide the bulk of the usable resources would justify a much larger replenishment and an enhanced role for the Bank in developing policy changes in borrowing countries; a more modest replenishment would be in order if there is no change or only limited change in voting procedures.

The administration's request for fiscal year 1988 reflects our strong desire to see an outcome to this issue which allows a full role for the Bank in supporting policy adjustment in borrowing countries. To complete previously negotiated replenishments, we are seeking $63.2 million in budget authority for paid-in capital; $119.4 million under program limitations for subscriptions to callable capital; $89.5 million for contributions to the FSO; and $26.8 million for subscriptions to the Inter-American Investment Corporation. These sums represent the results of past negotiations and we urge your full support to buttress our leadership role in the Bank.

In addition, our fiscal year 1988 request includes $57.9 million in budget authority for paid-in capital, $2,257.3 million under program limitations for callable capital; and $20.6 million for contributions to the FSO. These estimates are predicated on the fully satisfactory resolution of outstanding issues in the negotiations. If satisfactory agreement is not reached on all outstanding issues, we are prepared to negotiate a smaller replenishment and submit a corresponding budget amendment to the Congress reflecting a smaller requirement for budget authority this year.

Negotiations for the replenishment will resume in March at the time of the IDB Annual Meeting in Miami. I am hopeful some conclusion can be reached at that time. The most disappointing outcome would be failure to reach agreement. Such an outcome would be disappointing to all Bank members. We hope that this outcome can be avoided by a concerted effort to resolve all outstanding issues.

In conclusion, Mr. Chairman, the administration's $1.8 billion request in fiscal year 1988 for the Multilateral Development Banks includes $621 million for the Regional Development Banks. The $293 million supplemental request for fiscal year 1987 includes $43 million for the African Development Bank and Fund.

These sums are essential to our efforts to enhance international economic cooperation. The replenishment negotiations that I have been discussing have reflected the serious, concerted desire of the international community, especially our allies in Europe and Asia, to enhance the Regional Development Banks as instruments in support of sustained growth and international stability.

The Treasury Department has sought the support of the leadership of this and other concerned congressional committees in our efforts to reach replenishment agreements that strengthen international cooperation. We ask for your continued support and for your approval of the administration requests.

Thank you, Mr. Chairman.

[The prepared statement follows:]

PREPARED STATEMENT OF JAMES W. CONROW

DEPUTY ASSISTANT SECRETARY
FOR DEVELOPING NATIONS

DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to continue the presentation of the Administration's fiscal year 1988 request for the multilateral development banks (MDBs).

In presenting our appropriations request of $1.8 billion for the MDBs on Tuesday, Secretary Baker outlined our basic approach to international economic cooperation and the role of the banks.

The handful of international financial institutions of which the United States is a member grew incrementally out of the post-World War II realization that the mismanagement of international economic relations in the pre-War period contributed directly and substantially to the severity of the Global Depression and the ensuing political turmoil.

This could not be allowed to recur, even though political pressures in all countries to protect their domestic incomes and employment at the expense of foreigners would continue.

International economic cooperation was to replace the exclusive -- and destructive -- pursuit of short-term national interest. The common goal was to promote global economic growth through stable and cooperative trade and financial relationships.

The United States debt initiative launched a little more than a year ago falls squarely in this tradition of international economic cooperation. Creditor country governments, the private sector and debtor country governments are working hand-in-hand under the auspices of international financial institutions. Together, they are hammering out effective programs to sustain future growth and to address debt issues in a fashion which improves, rather than prejudices the possibilities for stable financial relations between the debtor countries and their private and official creditors.

The debt problem grew over a long time and will not be resolved in a single bold stroke. Cooperation, where short term interests appear in conflict, requires time, patience and hard work. And I must tell you here today that it also requires economic and financial resources from debtors, creditors and international financial institutions.

Secretary Baker has discussed the role that the World Bank is playing to address our contemporary debt issues. If properly oriented, the regional development banks can play an important supportive role in the international

community's efforts to restore sustained growth in the developing countries.

Our objectives in the recent Asian Development Fund and African Development Bank replenishment negotiations and in the continuing negotiations for the Inter-American Development Bank have been squarely directed toward such a role for these programs. Our successes, thus far, justify the amounts we are requesting for fiscal year 1988.

Asian Development Bank and Fund

In April 1986, the developed countries that contribute to the Asian Development Fund (ADF), along with a few developing country donors, agreed on a four year $3.6 billion replenishment of the concessional window of the Asian Development Bank. The ADF lends to the poorest countries in the region -- primarily in South and Southeast Asia, with Pakistan, Bangladesh and Sri Lanka likely to receive more than half of the resources.

The U.S. share will be 16.23 percent, the same as in the previous replenishment and second to Japan's 36.7 percent share. The total amount of the U.S. contribution will be $584.3 million.

The Administration's request for fiscal year 1988 includes $146.1 million for the first of four payments under the new replenishment and $72.9 million to complete the U.S. contribution to the previous replenishment, for a total request for the ADF of $219.0 million.

The Administration achieved several important reforms in the Asian Development Bank in the course of negotiating this replenishment agreement. First, increased emphasis will be placed on the role of the private sector in promoting long-term sustainable growth and development. Second, the Bank will make a greater effort to seek policy reform by borrowers in the context of lending and technical assistance activities. Third, the Bank has agreed to develop country strategies to guide the lending program for each country. Fourth, the lending terms for the ADF will be hardened in line with the terms agreed upon in the eighth replenishment of the International Development Association. Finally, internal organizational changes have been undertaken to improve the quality of lending.

The emphasis on borrowing country policy reforms, the development of country strategies and the organizational changes should permit the Bank to make a material contribution to the international community's efforts to support sustained growth in the countries that borrow from the ADF and from the Bank's hard window.

To complete the U.S. subscription to the ADB hard window's most recent capital increase, the Administration is requesting $15.1 million in budget authority for paid-in capital and $276.5 million under program limitations, which do not entail budgetary outlays, for subscriptions to callable capital.

I should add at this time that the 1983 capital increase for the hard window has provided resources for a longer period than had been anticipated. As a consequence,

if the Administration request is fully funded in fiscal year 1988, there will be no request required for budget authority for the hard window in fiscal year 1989.

African Development Bank and Fund

In November 1986, the member governments agreed to the Fourth General Capital Increase of the Bank's ordinary capital resources, which would raise the authorized capital from $6.4 billion to $19.4 billion, with 6.25 percent of increased resources to be paid in. This capital increase should support a five year lending program of $6.0 to $7.8 billion from 1987 to 1991 and will also substantially strengthen the Bank's financial structure.

During the negotiation of this capital increase we were able to secure several changes designed to improve the operations of the Bank. First, the Bank will put in place a more effective country programming and lending operation by developing country strategies that are updated regularly, as often as annually for major borrowers.

Second, monitoring of project implementation will be intensified during the 1987-1991 period. At the suggestion of the General Accounting Office, post-project evaluation activities will be made more independent of operational staff and will specifically identify lessons for future project design and implementation.

Third, coordination with other donors will be enhanced, especially in the course of limited policy-based lending in conjunction with the World Bank.

The U.S. share of the recently negotiated capital increase is $719.6 million with $45.0 million paid-in. The Administration request for fiscal year 1988 is for the first of five equal installments and consists of $9.0 million in budget authority for paid-in capital and $134.9 million under program limitations for callable capital. The Administration is also seeking $90.4 million to complete contributions to the 1985 replenishment of the African Development Fund.

In addition, the Administration is seeking supplemental appropriation for fiscal year 1987 of $6.5 million in budget authority for paid-in capital, $17.4 million under program limitations for subscriptions to callable capital -- both for the Bank -- and $36.6 million in budget authority for the African Development Fund. These resources are critically needed to strengthen Bank and Fund lending during the current year.

The Inter-American Development Bank

Negotiations regarding the Seventh General Increase of the resources of the IDB are continuing, but I would be less than candid if I did not tell you that we are disappointed with the progress of those discussions. In our view, the Bank should play a strong, prominent role in assisting the countries of this Hemisphere to address their development needs, especially the priority task of sustaining growth in debt-burdened countries.

Last week, I represented the United States in the seventh formal meeting since last March to discuss the changes that are needed in the Bank to allow it to play such a role. I have also participated in numerous informal meetings. While we have achieved some progress, a final resolution to the negotiations has eluded our efforts.

On the condition that outstanding issues are resolved satisfactorily, agreement has been reached in some important areas, including:

-- a lending program in the $20 to $25 billion range in 1987 through 1990;

-- 20 to 25 percent of the lending program in the form of policy-conditioned sector lending;

-- a strengthened country programming structure within the Bank so that operations can concentrate on those sectors and projects that would have the greatest impact on sustained economic growth and social progress; and

-- a concentration of concessional resources from the Fund for Special Operations (FSO) on the poorest countries, i.e., Bolivia, El Salvador, Guyana, Haiti and Honduras.

With regard to three additional issues, agreement on operational details has not been reached, but there seem to be no significant obstacles, and we are optimistic about the prospects:

-- operational definitions and procedures to guide the formulation of country programming strategies;

-- operational definitions and procedures to guide sector lending; and

-- reorganization of the Bank's internal structure to facilitate preparation of country programming strategies and sector lending activities.

However, one issue has remained outstanding: the restructuring of voting procedures so that representatives of member countries which provide the vast bulk of the Bank's usable resources -- through budgetary transfers or through access to domestic capital markets -- can exercise more authority over loan quality. The United States, Canada and the Bank's non-regional members in Europe and Asia provide over 95 percent of usable resources.

The Administration's basic posture is not, as some quarters have said, that the voting issue must be resolved to our satisfaction or the United States will not participate in any replenishment. Rather, it is a question of the size of a replenishment: implementing voting procedures that give more effective control to member countries that provide the bulk of the usable resources would justify a much larger replenishment and an enhanced role for the Bank in developing policy changes in borrowing countries; a more modest replenishment would be in order if there is no change or only limited change in voting procedures.

The Administration's request for fiscal year 1988 reflects our strong desire to see an outcome to this issue which allows a full role for the Bank is supporting policy adjustment in borrowing countries. To complete previously negotiated replenishments, we are seeking $63.2 million in budget authority for paid-in capital, $119.4 million under program limitations for subscriptions to callable capital, $89.5 million for contributions to the FSO and $26.8 million for subscriptions to the Inter-American Investment Corporation. These sums represent the results of past negotiations and we urge your full support to buttress our leadership role in the Bank.

In addition, our fiscal year 1988 request includes $57.9 million in budget authority for paid-in capital, $2,257.3 million under program limitations for callable capital and $20.6 million for contributions to the FSO. These estimates are predicated on a fully satisfactory resolution of outstanding issues in the negotiations. If satisfactory agreement is not reached on all outstanding issues, we are prepared to negotiate a smaller replenishment and submit a corresponding budget amendment to the Congress, reflecting a smaller requirement for budget authority this year.

Negotiations for the replenishment will resume in March at the time of the IDB Annual Meeting in Miami. I am hopeful some conclusion can be reached at that time The most disappointing outcome would be a failure to reach agreement. Such an outcome would be disappointing to all Bank members. We hope that this outcome can be avoided by a concerted effort to resolve outstanding issues.

Conclusion

Mr. Chairman, the Administration's $1.8 billion request in fiscal year 1988 for the multilateral development banks includes $621 million for the regional development banks. The $293 million supplemental request for fiscal year 1987 includes $43 million for the African Development Bank and Fund.

These sums are essential to our efforts to enhance international economic cooperation. The replenishment negotiations that I have been discussing have reflected the serious, concerted desire of the international community -- especially our allies in Europe and Asia -- to enhance the regional development banks as instruments in support of sustained growth and international stability.

The Treasury Department has sought the support of the leadership of this and other concerned Congressional Committees in our efforts to reach replenishment agreements that strengthen international cooperation. We ask for your continued support and for your approval of the Administration requests.

Thank you.

PREPARED STATEMENT OF SENATOR D'AMATO

Senator INOUYE. Thank you very much. Before proceeding, several of the members of this subcommittee called to convey their regrets at not being able to attend this meeting. As you know, about half of the members are members of the Select Committee on Iran Investigation and the Intelligence Committee, and so they are busy looking over the Tower Commission report. I think it is understandable. In fact, I should be doing that myself.

Senator NICKLES. You have a little interest in that yourself.

Senator INOUYE. Senator D'Amato has asked that his statement be inserted in the record. Without objection, it will be done so at this point.

[The statement follows:]

PREPARED STATEMENT BY HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, thank you for holding this hearing today on the regional Multilateral Development Banks. I welcome James W. Conrow, Deputy Assistant Secretary of the Treasury for Developing Nations.

This past Tuesday, Secretary Baker testified before this committee on the vital role of Multilateral Development Banks and the importance of U.S. commitment toward these banks.

The Inter-American Development Bank [IDB], the Asian Development Bank [ADB], and the African Development Bank, provide loans for development projects in the poorest nations in these regions of the world. The current debt of the nations involved, however, continues to mount.

Secretary Baker has had success in providing additional loans to various nations in exchange for promised economic reforms. The purpose of this, in the short-run, is for these loans to avert an immediate debt crisis; in the long-run, hopefully, these nations will be able to use the additional credit to stabilize their economies, increase their exports, and eventually wittle away their foreign debt.

However, there is a good possibility that we may be throwing good money after bad. I realize that the debt problem took many years to develop and so will take at least as long to solve. But how long can Congress be assured that simply making more credit available with promises of economic reform will be effective enough?

I look forward to reviewing your testimony, Mr. Conrow, and I hope to work closely with the Treasury Department on funding levels for the Multilateral Development Banks.

Thank you, Mr. Chairman.

DIFFERENCE IN APPROACHES BY ADB AND IDB

Senator INOUYE. Mr. Secretary, in your prepared statement, you indicate that under the current replenishment, the Asian Development Bank will first place increased emphasis on the private sector; seek expanded policy reforms by borrowers, develop country strategies for lending terms; and improve organization to improve lending quality.

It would appear that the ADB has done everything that the Inter-American Development Bank has refused to do. Is that a fair statement?

Mr. CONROW. Yes, Mr. Chairman. I think the Asian Development Bank, in the negotiations that we have had, has recognized the importance of country programming and the importance of institutional changes, toward a more market-oriented approach. But I think it also

very much reflects the difference between the developing countries in Asia and the developing countries of Latin America, their basic economic philosophy, and the pattern that one sees in looking at the economies of two different regions. These differences are translated into the respective approaches of these two institutions.

Senator INOUYE. I am also led to believe from your statement that the management of IDB is prepared to always give you an impression of reforms and improvement but it is actually stonewalling on the real changes. Would that be a proper impression from reading your statement?

Mr. CONROW. I believe the management of the Inter-American Development Bank is trying to gauge what the views of the governors of Latin America are. In this, I want to underscore, Mr. Chairman, there is a real distinction between the Asian Bank and the Inter-American Bank. In the Asian Bank, the non-borrowing countries, the combination of regional non-borrowing countries and the non-regional countries, have majority ownership in the institution.

In the Inter-American Development Bank, the regional borrowing countries have majority ownership of the institution. As a result, their view of what management ought to do in terms of policy implementation and conditionality and these sorts of issues are strikingly different. The managements of the institution in responding to the shareholders find that it is much easier to sort of go along with borrowers in the case of the IDB than, say, in the case of the Asian Development Bank.

Senator INOUYE. How do we, under those circumstances, send a message to the IDB, short of not appropriating and participating in an additional replenishment?

Mr. CONROW. I think, Mr. Chairman, that this committee and the other committees of the Congress have continued to show their own awareness of the problems in the Inter-American Development Bank and have been fairly clear in communicating that in the reports of this committee and others.

Clearly this administration has been very determined in our efforts to convince the governments of Latin America and the Caribbean and the non-regional countries as well as Bank management of the seriousness with which we are approaching this issues.

I think it would be useful, Mr. Chairman, if I said at this juncture, that in terms of the substance of the reforms that we are seeking in the Inter-American Development Bank, there is no disagreement between the United States, Europe, Japan, and Canada. We are all in agreement in terms of the problems that have arisen over the years in the Inter-American Development Bank and the need to make fundamental changes. There is a united front on that score with regard to the negotiations that I have been involved in for the Inter-American Development Bank.

Senator INOUYE. But they are still stonewalling.

Mr. CONROW. They are still stonewalling; correct.

DIFFERENT UNITED STATES VOTING PATTERNS

Senator INOUYE. In your February 13 letter, you appear to be very positive towards the outcome of negotiations with the African Development Bank, but at the same time you warn us that there are significant obstacles in resolving negotiations with the Inter-American Development Bank.

This letter notes that these significant obstacles exist because of the IDB's unwillingness to give the United States "more authority over loan quality."

Presumably this would mean that the United States has had serious problems with the quality of some of the IDB loans. Would that be correct?

Mr. CONROW. I would say significantly more than some.

Senator INOUYE. If that is the case, why did the United States object to $355 million of African Bank's loans in 1986, but during the same period on $2.9 billion in IDB loans, never once did you say no.

You tell us that the Americans are doing a good job and you turn down $355,900 worth of loans, but on none of the $2.9 billion of the IDB loans did you say no, even if you tell us that the quality of loans is very bad.

Mr. CONROW. Let me make two points with you, Mr. Chairman, on that score. In the African Development Bank situation, the United States accounts for something on the order of 5 percent of the shareholding. Our one vote sort of gets lost in the discussion that takes place. We have influence, but it is very marginal. Two-thirds of the shareholding of the African Development Bank is controlled by African countries themselves. It is more a message that we use in terms of casting our vote to try to improve the quality of the projects over time in the African Development Bank.

DEVELOPMENTAL NATURE OF THE AFDB

I would like to spend some more time with you discussing the developmental nature of the African Development Bank. This is an institution that is just beginning to get computers into their institution, and they are just beginning now to bring in highly trained people from outside of Africa to help manage the financial operations of the institution, to bring in the sorts of skills that they really have been lacking: the designing of projects and the basic fundamentals that go into the Development Bank loans.

The African Bank is still very much in the early stages of this process. The role of the non-regional countries, including the United States in that institution, did not materialize until 1983. It was with a great deal of reluctance that the Africans opened that Bank up to non-regional memberships, fearing that we would come in and try to turn the institution immediately into a World Bank or an IMF. So there has been a recognition, I think, on the part of all the non-regional members that we have to go carefully, slowly with these countries, to show them that our intention is to work with them, and not necessarily to point

fingers at them in a way that causes a great deal of difficulty in very sensitive areas.

So we have been willing to work with the African Bank through a process of pointing to problems in loans, casting our votes accordingly, suggesting reforms and changes that they ought to be making, and as time has elapsed we think that these messages are getting through. Nevertheless, clearly we still vote against more loans in the African Development Bank than any of the other institutions.

CHANGED IDB VOTING PATTERN IN 1986

Senator INOUYE. Why don't you let your concerns be known to the IDB through a no vote. Cast "no" once in a while, at least once.

Mr. CONROW. Let me just move to that question, Mr. Chairman. In the Inter-American Development Bank, we had negotiated a replenishment in the early eighties which sort of started this movement in the direction of policy reform, country programming and the like.

We found that as the years were unfolding that there were a great deal of difficulties materializing in terms of projects. We opposed a number of loans in the Inter-American Development Bank in 1982, 1983, 1984, and 1985.

We found that to resolve a number of the issues, it involved getting the issue brought up to the Board and then the loan would be held in abeyance while the issues were resolved between the United States and the individual country. In other words, management took itself out of the process and said we cannot resolve these issues. You resolve it with the United States yourself, you take care of it, we are taking ourselves out of this process.

This would happen over and over again. One of the real problems that we found was that, whether it be Argentina or Costa Rica or Columbia, if a problem came about over a technicality in the loan, it became a bilateral issue, an issue between the U.S. Government and the government in question, rather than being something that was worked out internally within the Bank.

If you look, then, at the United States' voting pattern during the mid-1980s, you will find a number of no votes. You will find a number of loans where they went to the Board and the United States was very, very vocal in its comments as to what the problems were. We could have voted against many more loans than what we actually ended up voting against on basically economic grounds.

Then 1986 comes along, as you have indicated, and what has happened? I think that because of our agenda—with what we are proposing in terms of the reforms during these negotiations—the Bank has recognized that it would not make sense to provide current examples of bad loans by bringing loans forward that have problems which would generate U.S. opposition.

Therefore, I think what has happened in 1986 is that Bank management, in conjunction with the governments of Latin America, has simply not brought forward the sorts of loans that in the past we might

have criticized, because during this entire year we have been negotiating this replenishment.

Senator INOUYE. After the replenishment is approved, then they go back to business as usual.

Mr. CONROW. That is the fear that all of us in the U.S. Treasury have. We are working or this issue, and that is why we are insisting so strongly not only on the organizational changes that we feel are necessary in the Bank, but also this voting mechanism that would protect us at some point in the future.

Senator INOUYE. Senator Nickles.

Senator NICKLES. I would just like to follow up, Mr Chairman. You are on exactly the same wavelength as I am.

PROPOSED VOTING PROCEDURES BY IDB EXECUTIVE BOARD

Just a couple of comments concerning the IDB. You mentioned a couple of changes that were made—one with voting. What do you propose?

Mr. CONROW. We are proposing a mechanism in the Board of Directors which would enable at least, or at a minimum, two executive directors—there is currently a board of directors of 12—representing at least 35 percent of the shareholders of the institution, to veto a loan or a policy and send it back into the Bank to be recast, reformulated, and developed.

Senator NICKLES. So it would take the United States plus somebody else.

Mr. CONROW. Plus one of the other 11 executive directors.

Senator KASTEN. Just one more? It has been two more.

Senator NICKLES. Right now it takes three?

Mr. CONROW. Right now it takes a majority of the Board.

Senator NICKLES. So it takes seven.

Mr. CONROW. Which in the case of the Inter-American Development Bank where the Latins have 53 percent of the shareholding and they vote en bloc. They never oppose one another's loans. They never criticize one another's loans. In effect the Board is a rubber stamp for approval under the current arrangement.

So what we have attempted by this mechanism is to put in place a blocking mechanism. It is not an outright veto of the United States where we would impose our view on them. We would have to bring one of the other constituencies to conclude that the problems we have identified are serious enough to warrant stopping of the loan, and that is what we have been proposing.

Now, the Latins on their side have said, we understand what you are saying. We are prepared to accept a voting mechanism. The one that we are prepared to accept is one that would require 40 percent of the shareholders, which would be a minimum of there chairs.

When you get down to the practicalities of what goes on in the Inter-American Development Bank, you have basically four chairs on the board of directors that are not Latin: the United States, which is a sole

constituency; Canada which is a sole constituency; and two chairs that are made up of the Europeans and the Japanese.

What that would require under the Latin scenario is that the United States and two of these others would have to come with us. The Europeans, for their part, have been with us on all of the reforms that we have been talking about, including the need for a voting mechanism, but they are prepared to accept the Latin proposal of 40 percent for obvious reasons. It gives them a much larger say in this institution than their 7 percent of the shareholdings would seem to indicate that they should have.

REASON FOR EUROPEAN MEMBERSHIP IN IDB

For our part, we have resisted this. The reason we are resisting it is quite simple—I will be very blunt about it: Europe's membership in the Inter-American Development Bank is not viewed in the same way that ours is and, for that matter, as is Canada's. They are in this institution for procurement. They are in this institution for foreign policy reasons. They do not look at the loans in anywhere near the detail that we do. They do not have a record at all of voting no on loans. They have a record of criticizing and making comments at the Board, but they do not go on record as opposing loans. It creates great problems for them in their internal process, so their whole approach to the Inter-American Development Bank is different and it is different than Canada's.

What we have found in the case of Canada on the other hand is that they also spend, like we do, a good deal of internal resources to watch these programs, to put staff on them, to look at the loans very carefully, and then show a willingness to go on record and vote no when they feel that for economic reasons, or financial reasons, that this particular project did not make sense. They have got a track record over the years of being willing to do that.

So our feeling was that to try to get a U.S. veto over the whole thing was not politically doable, but on the other hand we felt that if we could at least try to get one of these three chairs—and more likely than not it would be the Canadian chair—to join us when we really found something to be very egregious, that we would stand a much better chance. That was the approach that we have taken.

Senator NICKLES. That is where you stand in negotiating?

Mr. CONROW. At this point in time, that is correct.

IDB ANNUAL MEETING IN MIAMI, FLORIDA

Senator NICKLES. You have a meeting scheduled in March or April?

Mr. CONROW. March.

Senator NICKLES. In Miami?

Mr. CONROW. In Miami.

Senator NICKLES. But you hope to have that resolved prior to that meeting?

Mr. CONROW. I would hope to, but my own opinion is they are going to have to hear from Secretary Baker down in Miami who will be there.

He is the Governor and will be the Chairman of the Annual Meeting. They will have to hear from him directly, as they have heard this week in his testimony before your committee on Tuesday and more specifically yesterday before the Senate Foreign Relations Committee where this question was delved into in more detail. The Secretary made very clear our position.

HISTORY OF IDB REPLENISHMENTS

He will undoubtedly have to do that again down in Miami to really convince the other governments of the seriousness of the U.S. position. I want to underscore this point, too: there is a history that the Latins are looking at. The history is that the United States in these replenishments takes a very tough stand in the opening rounds, maybe the first 6 to 9 months; but eventually, for foreign policy reasons and others, we end up giving in and accepting some compromise.

The Latin view out there is that eventually this is what is going to happen. Their sense was that sooner or later the United States will back off and they can get a deal on terms more acceptable to them. We have been trying to convince them repeatedly that in this particular case it is not going to happen. We are committed to this course; we have a united front between the Treasury Department, the State Department, the National Security Council. And I would say from my consultations with the Congress, there is a very strong view here that this Bank does need a change, and I think that message is finally getting through to them.

Senator KASTEN. Excuse me. Would you yield?

If that is the case, why on page 8 of your statement do you have the line saying that the administration's basic posture is not, as some quarters have said, that the voting issue must be resolved to our satisfaction or the United States will not participate in any replenishment?

It would seem to me, number one, that our position should be that we will not participate unless the voting issue is resolved. But, number two, it would seem to me if your position is as you just described it, that you would not go to the trouble of adding that line when you are only giving us ten pages of testimony. Putting that statement in this piece of paper says the opposite of what you just said to Senator Nickles.

Our position should be that we are not going to let them drag us through, that we are forcing a negotiating position. By including this statement, in effect you are telling us that you are going to talk tough here; that we are not taking a position as some have said that the voting issue must be resolved to our satisfaction or we will not participate in any replenishment. I mean this is typical State Department/ Treasury Department negotiating, and we lost one.

SIZE OF IDB REPLENISHMENT

Mr. CONROW. That hurt. I do not believe that to be the case, Senator, and let me tell you why. We have been very, very clear with the Latins all along—and the Secretary was in the Seoul, Korea speech on the

debt strategy—that in the case of the Inter-American Development Bank, they have a choice.

We are not saying we are going to shut the Bank down, and we have never said we are going to shut the Bank down. We cannot politically shut the IDB down. What we are saying is we can keep a small IDB, one that is geared towards the smaller countries, and one that continues a cap on the access of the large countries to this institution, and send them to the World Bank to get their lending to support reforms under the debt initiative.

Senator KASTEN. My question is not what we want to do. My question is why was that statement included in eight pages? Why do those three lines appear, if we are going to be so tough?

Mr. CONROW. Because I wanted you to know full well what I have been telling them very bluntly. I have told them they have a choice. We will agree to a replenishment. It will either be a very small one or it will be a larger one, and if it is a large, one, then these things are going to have to fundamentally change. If it is a smaller one, we will be back up here with a budget amendment.

To be honest about it, if it is a small one of the magnitude that we have forecast if this does not work, there will be no budget request in terms of money. We will be able to do this program without seeking any budget authority from the Congress to do it. We can do it with no paid-in capital and we can do it with no FSO replenishment, and there will be some modest amount of callable capital in the program limitation form, so we would zero out in essence what the budget request would have been under this replenishment.

Senator KASTEN. Thank you for yielding.

LISTING OF MDB LOANS

Senator NICKLES. I appreciated your comments. I have an interest, as you know from some of the comments that were made at the Budget Committee or before the Appropriations Committee and in Foreign Relations and others, in this issue. So I would encourage and strongly urge you to hold fast as far as the voting requirement.

You might have asked Secretary Baker this, but could you give us a list of the loans that have been made in the last 5 or 6 years and those loans that are pending right now?

Mr. CONROW. We have what gets published every year, and I will make it available to your office, what is called the NAC, the National Advisory Council Annual Report, and that is required by law to be submitted to the Congress. In that report is the listing of all of the loans that get approved, the amount, how the United States voted on them, and a short description of what those loans do.

Senator NICKLES. Does it have the terms of the loans?

Mr. CONROW. The terms of the loans are included as well.

Senator NICKLES. Could you give us also the status of what you have as ongoing?

Mr. CONROW. We have what is called an Operational Summary of the projects that are in the pipeline. We don't know precisely when these loans will be brought to the Board because of the negotiations between the banks and the countries over conditionality and whatnot, but it generally tells you what they are working on.

Senator NICKLES. I do not want to put a bunch of work on you. I assume you had some type of list and would appreciate receiving a copy.

DEVELOPING COUNTRY DEBT PROBLEMS

I am also interested in, and maybe that second request would cover this, looking at Argentina's financial dilemma and also part of their solution, which I think would be the wrong approach, such as wage and price freezes. I realize they have a rampant inflation rate. But, I think what the World Bank was looking at was being a significant participant in some of the restructuring.

I am interested in digging into that a little bit further. So if you could—not just the Development Banks—but also the IMF, provide that information.

I do not know, and the question did not come out during the testimony of Secretary Baker—wasn't that yesterday or the day before?

Mr. CONROW. The day before. Tuesday.

Senator NICKLES. I do not know how close we may be coming to some real serious—I do not want to use the word "catastrophic"—problems. But if you add up, certainly considering the Third World debtor problems and some of the solutions that they are proposing—postponing payments, wage and price freezes, et cetera—and then add in our S&L problems, our farm credit problems, a lot of the banking problems that we have domestically, I am really concerned about it.

I hope that we can move towards some good solutions and some of the solutions I see in the Latin area seem to be very faulty. Again maybe that is my perception on what I think is wage and price controls, et cetera, but that concerns me and I am not sure that will help that particular country. If you would provide me that information, particularly the way we voted, I would appreciate it.

U.S. VOTING POWER IN MDBS

During the mid-1980s with IDB, were we outvoted repeatedly?

Mr. CONROW. Yes. The only window of any of the Development Banks where there is any kind of a veto is the soft window of the IDB. It is called the Fund for Special Operations. In that particular window the United States does have a veto over all loans that come before it.

In all of the other windows in all of the other Development Banks, it is majority vote and there has never been a loan in any of the institutions that has been voted down by the Boards.

Senator NICKLES. You asked for a significant increase in each one of these, assuming the IDB negotiations would be resolved. A total of, what, $1.8 billion for the year?

Mr. CONROW. For fiscal year 1988, but that includes getting funds that were previously sought that were denied.

Senator NICKLES. I understand. And what did you get in 1987?

Mr. CONROW. Just under $1 billion.

Senator NICKLES. So you got a little under $1 billion and you are going for $1.8 billion.

Mr. CONROW. That is correct. We are brave.

Senator NICKLES. Some of us want to examine that extensively before we get there, as I understand the Chairman. I am glad we are getting into the issue of voting and some of the other issues.

COLUMBIAN COAL PROJECT

One final request for information, and that would be concerning the one that was made on the Columbian Coal Project. I got into this, Mr. Chairman, and I think you would be interested in it because I know that it affects a lot of people, but this is an enormous coal project. It is over a $1 billion project. I think the international financing might have been $600 or $700 million to produce coal and to export coal, a project with Columbia and with Exxon.

We are exporters of coal. That is a tremendous resource we can export a lot more of, and I have serious reservations about the wisdom of that.

Mr. CONROW. If I might comment on two points that you are making. One is on these new replenishments in terms of the budget numbers. We are trying to bring in all of the replenishments, the whole new set of replenishments at a level of $1.4 billion or less. That was the target that we set for ourselves 2 years ago in the inter-agency process with OMB, taking full account of the Gramm-Rudman numbers that we would be dealing with.

The reason you are seeing the $1.8 billion there is because we are trying to clear up some arrears from these previous commitments. We have set as a target of $1.4 billion for ourselves in terms of annual funding levels.

I believe if you look back in fiscal years 1983 and 1985 where the Congress was able to support levels of $1.5 billion for these institutions, that it is not unreasonable in the context of the changes we are getting in these institutions. These institutions are playing a more critical role today than ever before.

MDB PROJECT SUPPORT FOR COMMODITIES

Second, if I might, dealing with the issue of commodities, I fully appreciate what you are suggesting with regards to Argentina, and with regards to Columbia and the coal project. But I think we also have to keep sight of the whole picture here. The Development Banks approve something on the order of 500 loans a year, and what we are talking about in this case maybe one or two loans that come about over the course of 2 or 3 years.

In times past there may have been substantial lending in steel and in coal and in areas of concern to the United States. Those types of projects have been shut down rather dramatically. You do not see them anymore. You see one or two of them that come about over a several year period of time.

I wonder, in our minds, whether it is really wise to single out a type of lending that is really down to just one or two projects in a multiyear context when you are looking at something on the order of 500 projects a year that we do not basically have problems with.

Senator NICKLES. Maybe when you provide us that information, I am sure you are probably correct that it is a smaller percentage. I hope it is a smaller percentage.

Mr. CONROW. Substantially.

Senator NICKLES. Senator Specter alluded to it and I did, and not just to harp on that Argentina wheat thing. But to be making no interest loans on which Argentina did not even have to pay interest for 3 years so they can increase wheat exports, when we have wheat overflowing and are having a very difficult time exporting it, is very irritating to our constituents—and that is an understatement.

Mr. CONROW. I understand that.

Senator NICKLES. Mr. Chairman, thank you.

[The information follows:]

IBRD COAL EXPLORATION PROJECT IN COLOMBIA

The International Bank for Reconstruction and Development (IBRD) in October, 1983 made a loan of $9.5 million to Carbones de Colombia, S.A. (CARBOCOL) to assist a $19.7 million coal exploration project. The IBRD loan, which has a maturity of 17 years, is at the Bank's standard variable interest rate.

The project consists of: (a) a coal exploration component, aimed at identifying thermal coal deposits, evaluating coal reserves and assessing the technical and economic viability of deposits in six areas. These areas are among the better placed vis-a-vis domestic and export markets, withing a 250 kilometer distance of the Atlantic Coast and are in a good position to serve the largest consumption centers in northern Colombia, and (b) a technical assistance component for marketing, coal exploration, financial planning and contracting for coal development.

The project is a step to broaden the knowledge of Colombian coal resources and to establish the potential for coal development in a region of the country believed to offer the best prospects for open pit coal mining and for supplying coal competitively to the export market as well as to the large thermal power plants expected to be needed over the few decades in Colombia. The preliminary geological information suggest the possibility of proving reserves in the project areas large enough to sustain an aggregate production level of over 15 million metric tons per year. The project would thus open the possiblity for coal to make an important contribution to long-term energy development and improvement in Colombia's trade balance.

IFC COAL DEVELOPMENT PROJECT IN COLOMBIA

In 1982, the International Finance Corporation (IFC) made debt and equity investments totalling $12.5 million to support a $51.6 million private sector coal mining project in northern Colombia. The company, Carbones del Caribe, is sponsored by local Colombian interest and by the Mining Investment Corporation, a British company. In 1986, the IFC made an additional investment of $2.9 million to facilitate the company's expansion.

MDB LENDING FOR COAL AND STEEL

	FY 1975			FY 1980			FY 1985		
	AMOUNT (million dollars)	NUMBER of PROJECTS	SHARE (percent)	AMOUNT (million dollars)	NUMBER of PROJECTS	SHARE (percent)	AMOUNT (million dollars)	NUMBER of PROJECTS	SHARE (percent)
Coal	12.0	1	0.1	39.0	2	0.2	425.1	4	1.8
Steel	145.4	3	1.6	302.7*	6	1.9	3.4	2	0.01
Total MDB Lending: (million dollars)	8,991.0			16,328.2			23,530.9		

* Includes a $200 million DFC loan that is only partially for steel. The share drops to 0.6 if it is not included.

May 5, 1987

PROPOSED U.S. REFORMS IN IDB

Senator KASTEN. Let me just conclude this. I just want to say that I, as one senator, am not prepared to support any replenishment for the IDB without all the reforms, including the voting reform being in place.

I had some other questions but they have all been covered, I think.

Senator INOUYE. Will you yield at that point?

Senator KASTEN. I am pleased to yield to my Chairman.

Senator INOUYE. I would like to point out to the Secretary that at this juncture, I think it would be safe to say that Senator Kasten has the votes if he makes that motion.

Mr. CONROW. Message received. I understand.

Senator INOUYE. It would be well if you advised your friends in IDB.

CATTLE RANCHING IN BOTSWANA

Senator KASTEN. Earlier this week Secretary Baker told this committee of his continued concern for future cattle ranching projects in Botswana. As part of our overall discussion on working environmental reforms, I think we aee making real progress, and for that I thank you and thank the Secretary. I think all of us are making a real contribution.

I am concerned about a particular ongoing project, the Botswana-3 loan which expands cattle ranching in new areas. Is that loan being implemented as expected? Are there unacceptable environmental damages resulting from the loan? Do you believe that we can take any steps to intervene?

I guess my bottom line question is: If this loan were presented to the Bank board today, would the U.S. E.D., the U.S. delegate, be instructed to vote against the Botswana-3 loan now that we know what we know?

Mr. CONROW. Let me begin, Senator, with a review of where we are on the loan. The World Bank has a binding loan agreement with the Government of Botswana. Our information is at this time that there have been no violations of the terms of that agreement; consequently, there is not a basis at the present time for any termination of it.

There have been no disbursements, however, on the commercial credits. The Bank is insisting that the financial intermediary, the National Development Bank of Botswana, complete a review of the portfolio arrearages before disbursements.

The policy problem in the livestock sector which you have been addressing persists. A better balance between the range potential and the national livestock herd is essential if the livestock industry is to be sustained in the long run.

As Secretary Baker mentioned to you on Tuesday, we made these points clearly to Botswana Vice President Mmusi in November.

On the land management side of the project, which most knowledgeable observers support, the multidisciplinary land use planning units have been established in the four designated districts. The units are designed to provide technical advice to local land boards on zoning matters.

As results of the work of these units, five wildlife management zones have been provisionally established to protect wildlife and permit limited commercial use. The Government of Botswana has decided to establish multidisciplinary land use planning units in the other six districts of the country. It is unclear whether World Bank support is desired or whether it indeed will be provided.

So in essence, Senator, the project is basically on hold at this point. There are no disbursements going forward as we watch and see things unfold.

To answer your second question, that if this loan were to come forward today under the current circumstances, I am absolutely convinced that the United States would be voting no.

Senator KASTEN. We would be voting no. We would be opposing that project.

Mr. CONROW. That is correct.

DISCUSSION OF ENVIRONMENTAL PROTECTION BY THE DEVELOPMENT COMMITTEE AND MEMBER GOVERNMENTS

Senator KASTEN. I understand that environmental protection is now an agenda item for the April Development Committee Meeting, and that is good progress and I want to compliment you.

My concern is, what is being done today to prepare for that issue? I hope we are already educating people who will attend this meeting about the role of environmental protection, and in addition how protecting the resources of the nation is essential to the future economic health of that nation.

You made the point in talking about Botswana, it is sustained economic development that we are talking about, whether we are in cattle ranching or anything else. So clearly not only are a number of these projects having an adverse environmental result, they are also having an adverse long-run economic result.

The point is it is a lose-lose situation. You lose on the environment and you lose on the economic development: the jobs, the hard currency, whatever.

What is being done now to get ready for the environmental protection agenda item which is going to be on the April Development Committee Meeting agenda?

Mr. CONROW. Senator, let me begin by saying that I agree with you completely that what we have to do is a process of educating not only other donor countries, but also the developing countries, in addition to working with managements in improving their performance in this area.

We have as a matter of policy made the decision to bring the environment theme to all of the negotiations that we have been involved in over this past year and a half for these various replenishments. I take time out in the negotiation sessions when all the governments are present and talk about the environmental implications of these projects that are taking place.

We are getting support as time has gone on: the Europeans, the Japanese, the Australians, and a number of the other industrialized countries around the world are recognizing this as a very legitimate issue and one that does indeed warrant further consideration.

We are giving instructions to the directors on the Board to focus more on these issues and raise questions internally within the Bank. I find that to be a very, very healthy development that has taken place.

I must say, though, in all honesty that one of the real problems we have is over on the developing country side. They see this issue from a standpoint of it being a luxury for industrialized countries to be talking in these terms when they simply are trying to live and establish basic income levels concerning food calorie intake and the like.

What we have tried to talk to them about is that, as you have indicated, if you do your planning carefully in advance, you can find many times that the economics of these projects, if carefully done, can be more important to you than what you may have otherwise thought.

As an example, if you are building a dam and you do not take into account the siltation problems, and you place that dam in the wrong place, the siltation that builds up over time may reduce the capacity of that dam rather dramatically in terms of its potential. The cost of going in and dredging it over and over again becomes a very expensive proposition, and the economic rate of return that you had anticipated in the beginning of the project has turned negative rather substantially in time.

So what is needed is careful planning in advance. The engineering work, the environmental analysis, soil content, and all of these things could be done at a very cheap cost in the early stages, and in doing so you can minimize the sorts of problems that you have identified and that we have identified as being critically important in this equation.

As we try to talk to the developing countries about that and show them that these tradeoffs can be dealt with in the earlier phases of this process, I think we are going to start seeing some more success.

In some of the African countries we are getting some general support from a number of the key ministers that say yes, indeed, they would welcome more understanding of this issue. They see the upcoming Development Committee Meeting dealing with the environment as an opportunity for them to learn more about it and see some of these tradeoffs more clearly from people who have more knowledge of the subject matter than they have.

What is being done in terms of the Development Committee agenda is that the World Bank is putting together a report that outlines essentially what they see to be the current situation in this broad area. That report will be made available to all of the governments in advance of the Development Committee Meeting. There will be an opportunity for a number of the non-governmental organizations to make their views known to all the participants in terms of pamphlets and the like—and I am sure they will.

So I see this first round of the Development Committee Meeting as really being an educational process, sort of taking stock of where we are and indicating the direction in which we want to see further actions and further emphasis placed. I believe that this agenda item will not end this upcoming spring Development Committee Meeting. I think it will be an agenda item that will stay with us on into the future as we come back to it again and again to make certain that the Bank is indeed performing what we want it to do, and that the issues that are of great importance to both developed and developing countries can be continually addressed.

So what I am saying to you is that, unlike some items that show up on the agenda of the Development Committee that are there for one session and then never reappear, I am very much of the opinion that in this case the environmental issue will be one that will remain with us and we will continue to follow it up in subsequent Development Committee meetings.

Senator KASTEN. We look forward to working with you.

Mr. Chairman, I have a couple other questions which I will be submitting for the record.

Senator INOUYE. Thank you very much.

AFDB MANAGEMENT

I would like to turn to the African Bank now. I gather that the first three presidents of this Bank were forced to resign because of differences with the Board.

What changes have been made in the last six years to assure that more stable management is carried out there? For example, have they modified the rules so that the president can be removed only by two-thirds vote of the entire Board, or is it still a majority vote?

Mr. CONROW. I am informed that it is not a decision any longer of the board of directors. It is now a decision of the governors, which would be the ministers of finance rather than their executive directors.

I would say to you, Mr. Chairman, on this point that two years ago I had the pleasure of representing the United States at the African Development Bank Annual Meeting when we elected the new president of this institution. Of all the Development Banks, international organizations that I have been involved in, this is the first time that I have arrived at an annual meeting for what is normally a ceremonial election of an incoming president, where you actually went into the meeting hall not knowing who was going to win. It was democracy at work there right before your very eyes. It was secret ballots and it went three rounds until a candidate emerged with enough votes to carry the day.

That person was Babacar N'Diaye. He is from Senegal. He was former vice president of the bank for finance. He is highly regarded in the capital markets of the western world. He is very well trained and has a real vision of the role of the African Development Bank in dealing with these very difficult problems that Africa faces.

I am of the opinion and have been from the beginning of this presidency of Babacar N'Diaye that we will see change in this institution, where this Bank is going to move up and move out of the various problems that we all have been very cognizant of in the past.

We are in a position to see this institution come forward and become a much more important player in dealing with the problems of Africa. There is a willingness on the part of management to work closely with the World Bank, to work closely with the IMF. You have governments in Africa today who are willing to acknowledge many of the problems that were generated by their own policies, their own actions or inactions, and they are looking to institutions like the African Development Bank to be helpful to them in showing them how better to do things.

I am very encouraged by it. That is not to say that we do not still have problems, that we do not still have an awful lot of work that lies ahead of us, as we can clearly see in the development stage in Africa more generally. But I do believe that the African Development Bank has made the fundamental shift in direction. It is one that the United States and I think all of the other nonregional countries are much more encouraged about.

As long as we continue to put high-quality people out there to help in terms of our directors and our people to work on it, there is a welcome from the Africans. They really want to see us work with them hand in hand to try to make that Bank a stronger and more important institution.

I would also say to you, Mr. Chairman, that over this past year we have a nonregional vice president for the first time in the history of the institution. It is in the area of finance. He is the vice president of finance and he happens to be an American, and one of whom I think we all are very proud. We think as well that the combination of Babacar N'Diaye as president and Milan Kerno as the vice president of finance, on the financing side, will enable that Bank to get into the capital markets where it does have two AAA and one AA rating from the rating agencies. This is a very important signal of this institution's stature in the world community.

UNITED STATES AND JAPANESE PARTICIPATION IN THE ADB AND RELATIVE PROCUREMENT SHARES

Senator INOUYE. In 1973, I was privileged to lead the subcommittee on a special investigating trip to Southeast Asia. At that time, one of the agencies we visited was the Asian Development Bank.

I believe our contributions to that Bank in 1973 was in excess of about 21, 22, in that area; and the Japanese were about the same. The president of ADB was Japanese, and in fact he has been Japanese since 1966, hasn't he?

Mr. CONROW. From the very beginning.

Senator INOUYE. Today Japan's replenishment contribution is 36 percent in the Asian Development Fund and ours is about 16.2. In 1973, 10 percent of ADB procurement was American. Over half of the

procurement was Japanese. Everywhere you looked, they saw to it that Japanese goods were purchased. In fact, the procurement chief of the Bank was Japanese. They knew who to put in charge. The contract chief was Japanese.

I would like to know if changes have been made, because at that time I recommended that until ADB changed its policy we would not look too kindly upon replenishment. In fact, for a year we did not appropriate any money for ADB as a result.

At that time I felt and I still feel that we were not getting our proper share.

First, what percentage of the Asian Development Bank's professional staff is American?

Mr. CONROW. Mr. Chairman, I believe it is roughly 10.7 percent.

Senator INOUYE. What percentage is Japanese?

Mr. CONROW. I do not have that before me.

Senator INOUYE. We pay 16.2 and we get 10.7.

Mr. CONROW. Correct.

Senator INOUYE. What percentage of ADB's procurement is from the United States?

Mr. CONROW. Cumulatively, Mr. Chairman, my figures show for the Bank, not the Fund, it is 8.29 percent.

Senator INOUYE. 8.29 percent and our contribution is 16.2 percent.

Mr. CONROW. This would be the Bank. Our contribution there is about the same. Then in the Asian Fund, the procurement number, cumulative—this is as of June 30, 1986—it is 9.24 percent.

Senator INOUYE. And our contribution to the Fund is 16.23.

Mr. CONROW. That is correct. I will give you these for Japan. The Japanese procurement, cumulative procurement as of June 30, 1986, for the Fund is 26.25 compared to our 9.24, and cumulatively in the Bank again, I said ours was 8.29; theirs is 26.57.

Now, if I might, Mr. Chairman, just give you a 1-year total for 1986, this last year, the numbers are somewhat better. In the case of the Bank, the Japanese share of procurement for this last year was 18.68. The United States was 5.74. But over on the Fund side, the Japanese share in this last year was 19.53 and ours was 18.08.

Senator INOUYE. Will you submit that table for the record?

Mr. CONROW. I will be happy to.

[The information follows:]

Asian Development Bank and Fund

	Cumulative Procurement as of June 30, 1986		Procurement July 1985-June 1986)	
	$ million	Percent*	$ million	Percent*
Bank				
France	154.019	2.49	14.156	2.47
Germany	334.944	5.41	22.060	3.84
Italy	122.884	1.99	4.040	0.70
Japan	1644.452	26.57	107.168	18.68
United Kingdom	217.458	3.51	14.932	2.60
United States	513.044	8.29	32.933	5.74
Fund				
France	31.456	1.19	6.265	1.15
Germany	146.392	5.52	18.275	3.36
Italy	82.155	3.10	12.101	2.22
Japan	696.141	26.25	106.240	19.53
United Kingdom	193.816	7.31	28.984	5.33
United States	244.937	9.24	98.373	18.08

* Percent of total procurement in member countries of the ADB.

JAPANESE LENDING POSITION

Senator INOUYE. Do the Japanese use their lending position in ADB because of the presidency and the important committee chairmanship, do they use this position to achieve an unfair advantage?

For example, does the pattern of lending favor Japanese exports or projects which could reduce the price of Japanese imports?

Mr. CONROW. I think there are a couple of factors here, Mr. Chairman, and you are hitting on I think a very interesting subject. The Japanese do approach these institutions with more of an eye on procurement opportunities than the United States has historically. I think that is a statement of fact, over the years that I have been monitoring and watching these institutions.

I think, however, that there are a couple of other ingredients here. The Japanese business community is much more aggressive in seeking out opportunities in the Asian Development Bank and in the other Multilateral Development Banks than is our business community.

Many a time I have sat and talked with our different directors and managements of these institutions and they are always commenting on the flow of businessmen from Japan who come through Manila to talk to management, to talk about projects that they may get involved in, and the numbers of Japanese businesses that come through to seek out opportunities far exceeds, is much, much larger than what transpires in terms of the American business community.

Senator INOUYE. Do we as a government encourage our businesses?

Mr. CONROW. We do indeed, Mr. Chairman.

There is one other point I wanted to make with you with regard to this basic issue. Project financing in the Development Banks many times follows the flow of technical assistance, technical assistance which goes out to do the feasibility studies and what have you.

One of the tricks to the game that goes on is if you can get the feasibility study contract and you do it for free, technical assistance is basically a grant provision, you go out and you design the projects and you design them to certain specifications which make certain procurement trends more likely to approve the low-cost bidder.

The Japanese historically have been willing to put voluntary contributions into the Asian Development Bank for purposes of technical assistance. The United States, because of our budget situation, over the years has been unwilling to make voluntary contributions to the Multilateral Banks outside of the normal replenishment exercises.

So you can follow that the Japanese have periodically put in voluntary sums of money for use by the institution to do this technical assistance work.

What we did in this current Asian Development Fund replenishment is change the rules of that game. We have established for the first time a technical assistance fund that was carved out of the ADF replenishment, so that while voluntary contributions can come in, there is a set pool of technical assistance that all of us are contributing to, and therefore the U.S. bidders on the technical assistance contracts are not ex-

cluded, which was the case in the past. We were excluded. If we did not put in voluntary contributions, U.S. companies could not bid on those technical assistance contracts.

U.S. PARTICIPATION IN THE IDB AND SHARE IN PROCUREMENT

Senator INOUYE. Let's look at the IDB, the Inter-American Development Bank. With the Asian Development Bank, we put in 16.2 percent, the Japanese 36, and in each category you had more Japanese hired, more Japanese procurement, et cetera.

With the IDB that is in our backyard, 41 percent of the Fund for Special Operation—that is the soft window—is American, isn't it?

Mr. CONROW. In terms of staff?

Senator INOUYE. No, money.

Mr. CONROW. Well, it is actually 55 percent.

Senator INOUYE. Fifty-five percent.

Mr. CONROW. In this last replenishment. Cumulatively, that may be right, but I think in this last replenishment it would have been there.

Senator INOUYE. Paid-in capital is 34.7 percent and callable is 34.7 percent. So we are the biggie nation then.

Mr. CONROW. That is correct.

Senator INOUYE. How often have we had an American serving as president of that?

Mr. CONROW. Never.

Senator INOUYE. Never.

Have we had any American in any position of significance?

Mr. CONROW. The senior vice president of the Inter-American Development Bank is always American.

Senator INOUYE. But he always votes yes.

Mr. CONROW. He does not have an opportunity to vote. The senior vice president of the Bank has the responsibility of trying to make the trains run on time.

Senator INOUYE. What percentage of the procurement is American?

Mr. CONROW. I will give you the same sort of numbers that we did in the Asian case. The cumulative numbers through December 31, 1985, which is the most recent data that I have here, the U.S. percentage on the Bank side is 45.62 percent. For the last year ending December 31, 1985, that number was 51.86 percent.

In the Fund for Special Operations there are—cumulative procurement total has been 65.94 percent, and in this past year ending December 31, 1985, that number was 41.18, a little better story.

Senator INOUYE. Why can't we do the same in ADB?

Mr. CONROW. Again, Mr. Chairman, I think in large part it has got to do with our business community. Our business community is very knowledgeable about Latin America. The Bank is right here in Washington. It is much easier for some of your small- and medium-size businessmen to come to Washington and to see the World Bank, see the IDB, explore business opportunities, than for a businessman to go out to Manila.

The same is true if you want to do the numbers on the African Development Bank. You will find the same sort of thing. Those two regional banks that are outside of the United States, or their headquarters are, the U.S. procurement is much less.

I think that is also true in terms of some of the developing countries where these institutions operate in Asia and in Africa, are places to which the American business community just generally has not been interested in going.

U.S. EFFORTS TO FOSTER PROCUREMENT IN THE MDB'S

I do not think it is necessarily a reflection of the government or our government's unwillingness to be promoting it. We in fact do. We have very close relationships with the Commerce Department, with the Chamber of Commerce, the business community out there, trying to encourage them.

We have standing instructions to be open and forthcoming to get into procurement problems at any time on behalf of Americans. We have a program where we send our directors around from the Asian Development Bank, up and down the West Coast of the United States and into the Chicago area maybe to speak to opportunities that are there in the Asian Development Bank, and the same is true for the African.

But it is difficult for businessmen to pick up that cost to go out to Manila on the chance that they may or may not get a contract.

PRESENCE OF AMERICANS ON MDB STAFFS

Senator INOUYE. Why don't we have more Americans on the ADB side and have them on the proper committees?

Mr. CONROW. Well, I would say there are two primary problems. One has been in the past the tax treatment of Americans overseas was disadvantageous to them to go to Manila. It cost you to go out there, and so it took a rather unique sort of individual who was willing to pack up and leave the United States to go to Manila to work in the Asian Development Bank at a salary structure and a tax system that was not at all advantageous to him.

Those tax provisions were changed just a couple of years ago. We did see then a turnaround in terms of the hirings of Americans. More Americans became interested. Then that sort of dropped off again with the turmoil in Manila. That had nothing to do with the Asian Bank. People were fearful, obviously, of the political situation and were leaving.

Then you have another problem with the middle aged Americans with families and children. They are not at all satisfied with the school systems in Manila and feel that they can only put a few years in and then they want to get out because they want to get their kids back into the United States schools.

Senator INOUYE. According to this chart here, we provide nearly 40 percent, but 21 percent of the staff is American. Do we have the same problems of internal turmoil and educational problems? Is that what it is?

Mr. CONROW. I don't know, Mr. Chairman, what the significance of this is. I guess what strikes me about it is there is rather consistent level of U.S. staff here. Going back to 1972 it was 23 percent and in 1986 it was 21.5 percent. To me that is a fairly constant——

Senator INOUYE. So is it half of the contribution? Is that the formula?

Mr. CONROW. No. There is no formula at all involved. I think what you did have, obviously—what strikes me, Mr. Chairman, is that in 1976, which is the year that the Inter-American Development Bank was opened up to the non-regional countries and Europe and Japan joined the institution, I would have envisioned at that point in time that the number of Americans would have dropped rather dramatically, as they would have broadened the Bank out to reflect the new membership in the institution.

Actually, I am rather struck by the fact that you do not see a real dramatic drop from the 1976 period and then leveling off to now. But to be honest with you, I do not know what the situation is in terms of hirings of American professionals in the Bank.

It generally seems to me when you look at the institution at the senior levels of the Bank, that there are a number of Americans in very key slots.

Senator INOUYE. Thank you very much.

SUBMITTED QUESTIONS

Senator Kasten and I would like to submit several questions for your consideration and response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Inouye

GAO Report on Independent Evaluation Division

SENATOR INOUYE: Mr. Conrow, a year ago the General Accounting Office (GAO) recommended to the Secretary of Treasury that he advise the African Development Bank to establish an independent "Evaluation Division" with a direct line reporting to the Board of Executive Directors.

Has the Secretary made this recommendation to the African Development Bank? Has the Bank responded?

MR. CONROW: Upon receipt of the recommendation from the General Accounting Office, the Treasury Department instructed the U.S. Director to propose that the African Development Bank's management and Board of Directors (a) as an interim measure, establish the Evaluation Division as a central evaluation unit under the President of the Bank, but with a direct line of reporting to the Board of Directors, and (b) consider the eventual establishment of a fully independent evaluation unit attached directly to the Board of Directors.

In May 1986, the U.S. Director reported that the President of the Bank had submitted a broad reorganization proposal. One of the changes outlined in the proposal calls for shifting the responsibility of the Evaluation Division from the Vice President for External Relations to the President. Reports were to be submitted directly to the Board of Directors. This change was adopted and went into effect on March 2, 1987.

The arrangement satisfies the interim recommendation from the General Accounting Office.

The U.S. Director believes the prospects for establishing a direct line of authority to the Board of Directors are good, but remain some years in the future.

AFDB Environmental Procedures

SENATOR INOUYE: Page 40 of the African Development Bank's (AFDB) 1985 Annual Report states that "the Bank Group introduced procedures on environmental considerations in project analysis."

Has the Department evaluated these procedures? Does it believe that they are adequate? Were the adequacy of these procedures raised in the recent negotiations on replenishments?

MR. CONROW: The AFDB established and filled its first environmental specialist position in December 1984. Among the initial tasks which the specialist performed was to recommend procedures for reviewing projects for their environmental implications. As in most of the other banks, the established procedure now calls for an environmental review of all projects prior to submission of a proposal to the Board of Directors. Since this procedure was administratively set in early 1985, this may explain the reference in the Bank's 1985 Annual Report.

At a formal level, the procedures are adequate.

The effectiveness of the Bank's environmental review in terms of ensuring that projects utilize natural resources sustainably and that alternatives are investigated is a separate question.

The Bank's capacity to manage environmental issues has been growing steadily. First, an additional environmental specialist joined the staff in late 1986 and is working in the critical Agricultural Development Division. Second, senior Management, led by the President, has been aggressive in urging member governments and the Bank's own staff to integrate environmental and developmental planning. Third, a series of training activities have been undertaken to sensitize Bank staff to environmental aspects of its work.

Environmental specialists are a resource which should be used by project and country staff whenever needed. They cannot substitute for the initiative and common sense which country and project staff must employ in identifying issues and in following up on the suggestions of specialists. The Bank has made a good start towards strengthening the capacity of its line project and country staff to perform their roles.

The environmental aspects of the Bank's program were not central issues in the recent replenishment, in part, because Bank Management had already demonstrated a sensitivity to these issues and a will to take reasonable initiatives. At the initial replenishment meeting in July 1986, Presisent N'Diaye stated:

> Concerning the efforts we are making to give effect to the new directions in our programmes, deputies will recall the emphasis we have recently given to policy dialogue with our member countries. Let me briefly list the kinds of actions we have taken over the last few months in putting into effect some of the ideas we outlined last January to our Board on policy dialogue.
>
> First, we have embarked upon a programme of studies and seminars to examine the implications of Africa's alarming environmental degradation for economic and social development. We held a seminar last April in Abidjan in the course of which we had a very useful exchange of views. I am happy to note that reference to this initiative was made during the hearings held by the U.S. Congress in May 1986 on environment and the role of MDRs. We have programmed more seminars and a major study to throw more light on this question, sensitize our member countries to the dangers they face from the degradation in their environmental capital, and to suggest what actions they can take (and how our Bank can help) to reverse the decline.

President N'Diaye went on to list additional measures to strengthen the Bank's capacity to participate in policy dialogues with members: (a) a system to identify project issues, such as pricing policies, more effectively, (b) increased collaboration with the World Bank and other agencies, (c) a new office in Addis Ababa to improve collaboration with the Organization for African Unity and the Economic Commission for Africa, (d) a pilot program to strengthen member capacity to assemble project data, (e) a restructuring of Bank services, and (f) an effort to hire more non-regional staff.

The member countries participating in the capital increase negotiations welcomed these steps.

In the negotiations for the African Development Fund replenishment which started in March 1987, Bank Group Management has elaborated on its intentions in the environmental area. The Bank plans to:

-- orient country programming, project identification, preparation and evaluation procedures to fully incorporate environmental considerations;

-- assist member countries in preparing national conservation strategies with a view to defining policies, programmes and institutional arrangements that are necessary to evolve environmentally sound and sustainable use of natural resources;

-- sensitize member countries to dangers resulting from inadequate or inappropriate ecological management by sponsoring seminars and symposia as well as providing technical assistance in support of sector reviews and detailed studies;

-- working with development finance institutions in member countries with a view to harmonizing their policies and treatment of environmental issues.

The U.S. representative to the March meeting welcomed these steps and requested an additional paper elaborating on these points along the following lines:

-- First, with regard to National Conservation Strategies, it would be helpful to have a status report on which regional countries have completed an NCS, which countries have an NCS underway and which countries, the Bank believes, might find an NCS a useful endeavor in the next two or three years. For the latter category, an estimate of the cost would be helpful, but not essential. For each NCS -- whether completed, underway or desirable -- it would be useful to have the Bank staff's assessment of the implications for the country's development strategy and for the Bank Group lending program.

-- Second, an elaboration of how development finance institutions might be effectively encouraged to harmonize their policies and practices with regard to the effect of programs on natural resource use would be a useful first step. We would hope for an approach that would be sufficiently specific and operational, so that it might be adopted as a policy in all loans to DFIs under the coming replenishment.

-- Third, as a reference, it would be useful if the Bank staff could provide an annexed directory of governmental agencies in regional member countries with specific responsibilities related to environmental aspects of development activities. The general views of the Bank staff regarding the need for desirable evolutions in institutional arrangements would be a valued addition.

-- Finally, a review of the seminars and symposia which the Bank has supported to date and those which might be desirable in the future would be a useful basis for planning support in these areas.

In summary, while procedures, per se, have not been subject of the replenishment meetings, environmental aspects of development activities are viewed as central to the concerns of member countries in considering the mission of the Bank and Fund.

AFDB PER CAPITA LENDING

SENATOR INOUYE: A former President of the African Development Bank (AFDB) has pointed out that the per capita lending rate of the AFDB is projected to be $2.50 in 1987, while the per capita lending rate of the Inter-American Development Bank (IDB) is projected to be $7.50. He explains that the poor performance of the AFDB is "due to politics".

What is the per capita lending ratio of each of the regional banks?

Have changes been made in the distribution of power in the AFDB to reduce the role of politics in the Bank's operation?

MR. CONROW: In answering your question about the per capita lending ratios in the regional development banks, it should be noted that the Asian Development Bank and the Inter-American Development Bank are much larger banks than the African Development Bank. For example, as the 1985 annual reports for these institutions show, the lending program for each of the regional banks was as follows (in million of dollars): the IDB: $2,766.0 in 1985 and $21,056.0 cumulative from 1961-1985; the ADB: $1,271.2 in 1985 and $11,948.6 cumulative from 1967-1985; and AFDB $709.31 in 1985 and $3,807.7 cumulative from 1967-1985.

Regarding the second portion of your question, I would like to point out that in 1985 the Board of Governors elected Mr. Babacar N'Diaye, the fifth President of the African Development. He was one among a total of four candidates. This election is noteworthy because Mr. N'Diaye was an internal candidate, he had been AFDB's Vice President of Finance and he had been working for the Bank for over 15 years. This was also the first AFDB presidential election in which the non-regional member countries participated. The United States looked at the candidates and decided on Mr. N'Diaye who emerged rapidly as the winner compared to earlier, highly contentious, and politicized elections.

Since Mr. N'Diaye took office, he has been working with regional and non-regional member countries alike to bring about changes to improve the efficiency of AFDB's operations. Last year he appointed a new Vice President of Finance, who happens to be an American. There are also non-regionals now working on AFDB staff. We are confident that with the non-regionals now having a third of the voting power, you can count on continued improvement in the Bank's operations.

ENVIRONMENT ON IDB AGENDA

SENATOR INOUYE: The Inter-American Development Bank's Annual Meeting will be held in Miami from March 23-25, 1987.

Does the Department of the Treasury have any plans to raise environmental issues during the Annual Meeting?

MR. CONROW: While plans are not yet firm, we anticipate that the Secretary's speech will urge a more integrated approach to environmental and developmental planning.

SENATOR INOUYE: Has the Department asked for a special meeting of the IDB to focus specifically on the environment, as required by Section 539(d) of last year's appropriation's bill?

Have similar requests been made of the Asian Development Bank or the African Development Bank?

MR. CONROW: We are proceeding cautiously on that instruction. There has never been a special meeeting of the Board of Governors for any purpose. The novelty of the procedure may have uncertain consequences. For example, other members could employ the procedure to discuss other issues, such as the adequacy of governmental budgetary contributions.

On February 12, the U.S. Executive Directors in the IDB and in the respective Directors in the other multilateral development banks were instructed to propose such a special meeting to management and selected Directors representing other countries and to report reactions.

MONITORING ENVIRONMENTAL COMMITMENTS

SENATOR INOUYE: Mr. Conrow, in many of the loans disbursed by the multilateral development banks, there are a series of commitments which must be undertaken by borrowing governments to ensure the environmental soundness of the loan activity.

Since most loans are disbursed as a lump-sum how do the multilateral development banks ensure that these conditions are carried out?

MR. CONROW: Actually, very few multilateral development loans are disbursed in a lump sum. Project loans are disbursed as the project proceeds, normally over four to seven years or more. Even policy-based loans are increasingly being disbursed in two or more tranches several months apart.

As a result of these disbursement practices, loan conditions can be closely associated with disbursements. In the clearest situation, loans for infrastructure are disbursed in accordance with stages of completion and often directly to contractors. If performance is lagging, payments lag.

SENATOR INOUYE: I know the Acre Road Project in Brazil, where the Inter-American Development Bank has withheld a loan disbursement because environmental conditionality was not being carried out. Are there any other instances?

MR. CONROW: We are aware of a second instance in Brazil. Disbursement for the World Bank POLONOROESTE program was held up from March to August 1985 in an effort to encourage stronger support for the environmental and indigenous peoples aspects of that program.

In a third example, again in Brazil, the disbursement of the first tranche of the World Bank's Electric Sector loan was held up from July until September 1986 while the Brazilian authorities prepared a satisfactory resettlement plan for the Itaparica dam project.

Disbursement interruptions are not ordinarily widely reported and we have not undertaken a systematic survey. However, we are confident that the banks scrupulously insist on adherence to loan agreement conditions.

ENVIRONMENTAL IMPACT OF POLICY BASED LOANS

SENATOR INOUYE: Mr. Conrow, in the past year, the World Bank has devoted, according to some accounts, up to 38 percent of its total lending to policy reform or sector-based lending.

In upcoming years, it appears that the Inter-American Development Bank is also preparing to increase its role in this type of lending activity.

Given that this type of loan is oriented toward economic policy changes and specific projects, how will the banks analyze the environmental impact of these loans?

MR. CONROW: In principle, environmental considerations can be associated with sector or policy-based loans. The approach would be to examine what major environmental issues should be addressed and what policies should be adopted in the sector. This analysis would lead to appropriate environmental policy steps which the loan would support. The Electric Sector loan in Brazil is an example.

SENATOR INOUYE: Indeed, given the Department of the Treasury's intent to vote against loans that are environmentally unsound, how will you assess, from an environmental perspective, your voting position on policy loans?

MR. CONROW: In this regard, too, the process is, in principle, the same: available documentation is analyzed, AID missions and other U.S. agencies are consulted and a decision is reached.

Again, the Electric Sector loan is an example. Our concern was that well-intentioned plans had failed to materialize in the past in the electric sector and that concrete action was needed to demonstrate the will to implement a sound plan. The environmental issues were identified with the assistance of non-governmental organizations, and the decision-making process proceeded normally.

INCREASE IN AFDB ACTIVITY

SENATOR INOUYE: Mr. Conrow, in the late 1970s, one of the justifications for permitting non-regional nations to join the AFDB was that it would permit operations to increase to six times the 1978 level.

Has this occurred? If not, why not?

MR. CONROW: In 1978, African Development Bank lending totaled $205.72 million, and in 1986, it amounted to $1,137.3 million, an increase of over 5-1/2 times. The substantial increase in AFDB lending operations since 1978 is due in large part to the expanded resource base resulting from the opening up of the share capital to the non-regional states in December 1982. During the last AFDB operational period (1982-1986) total lending to African countries amounted to $3.3 billion compared to total "cumulative" lending prior to 1983 of $2.1 billion.

THIRD WORLD DEBT AND WORLD BANK REQUEST

SENATOR INOUYE: Mr. Conrow, Is the $958 million request for the World Bank and IDA an integral part of Secretary Baker's Third World Debt initiative? If it is not approved by the Congress, what impact would rejection of the $958 million have on the Baker initiative?

MR. CONROW: The Administration's $958 million request for the first installment of the U.S. contribution of our share of the IDA VIII replenishment is indeed a critical element of the debt initiative outlined by Secretary Baker. You may recall that when Secretary Baker outlined the Program for Sustained Growth in Seoul for the middle income debtor countries, he also proposed one for the low income countries.

For this group, the Secretary proposed that the IMF and World Bank cooperate in providing external support on concessional terms to low income countries with protracted balance of payments problems undertaking macroeconomic and structural adjustment programs. To implement the proposal the IMF established the Structural Adjustment Facility funded by Trust Fund reflows. The World Bank's contribution will come mostly from IDA VIII. During the IDA VIII negotiations, it was agreed that $3 to $3.5 billion of IDA VIII will be used for structural adjustment lending to the extent feasible in conjunction with the Structural Adjustment Facility.

Hence, IDA VIII is clearly a key part of our international debt strategy. The low income countries will need strong external support on concessional terms if they are to implement successfully structural reforms, restore growth, and repay their debts in a timely fashion. The chief strength of IDA is its ability to encourage such reforms while coordinating and catalyzing other sources of finance to promote growth, development and stability in the developing world.

A growing number of countries are now realizing the importance of free market forces and incentives and thus IDA VIII provides us with an opportunity to support the low income countries in the effort to reorient their economies. Among the 34 eligible countries in Sub-Saharan Africa, 22 have major structural reform programs underway or are close to initiating such programs. These efforts must continue to be supported by adequate external assistance. IDA VIII is a major part of such assistance, and I urge strong bipartisan support for our contribution.

FUNDING SHORTFALLS

SENATOR INOUYE: Mr. Conrow, I believe that the requested funding for each of the MDBs contains an element to make up funding shortfalls in current or earlier replenishments. One, for a selected capital increase in the World Bank goes all the way back to 1970.

If the Congress does not fully fund the Administration's request for the MDBs, how will Treasury allocate that which is provided? Will you clear up arrearages from past replenishments or will you allocate the funds to current replenishments?

Is it not an embarrassment to the United States to have not fulfilled its agreed participation in the 1970 SCI increase at the World Bank? Can we agree to give the first priority for the use of funds made available this year?

Please submit for the record a table which indicates how you would allocate funds, were you to receive a 10, 25, or 50 percent reduction in requested amounts for each MDB.

MR. CONROW: We are working to clear up shortfalls in funding as soon as possible. The entire $293 million FY 1987 supplemental request is for arrearages, and we are seeking the remaining $492 million of arrearages in the FY 1988 request.

If the Committee is compelled to provide less than our request levels, we will work with you to allocate any reduction. At this point, it is impossible to say how reductions might be allocated. The eventual allocation will depend, in large measure, on issues that are not yet resolved: Our FY 1987 supplemental request, the IDB replenishment negotiations and the reallocation of shares in the IBRD.

As the Committee moves closer to marking up the request, we will know with more certainty how the amounts available would best be allocated. We will work closely with you on the question of allocation. In any scenario I could presently envision, making up arrears will be a high priority.

CONDITIONALITY: BILATERAL AND MULTILATERAL

SENATOR INOUYE: Mr. Conrow, would it undermine your efforts to insist on conditionality in multilateral Bank lending if in bilateral aid we do not insist on conditionality?

MR. CONROW: As a general proposition, it is important that both bilateral and multilateral assistance operate in mutually supportive and reinforcing ways. This ensures that economic assistance, both bilateral and multilateral, is put to the most effective use. It should be acknowledged, though, that in individual countries approaches may differ. This can reflect in part different perceptions as to what is critical in a particular case or different analyses as to what is appropriate. Finally, obviously our bilateral assistance cannot be completely divorced from our bilateral political or national security relationship with a country. In general, though, I think it is important that our bilateral efforts be consistent with our multilateral efforts.

COOPERATION ON DEBT INITIATIVE

SENATOR INOUYE: Mr. Conrow, in your statement you state that "creditor country governments, the private sector and debtor governments are working hand-in-hand under the auspices of international financial insitutions", in support of the U.S. debt initiative. In light of Brazil's and Ecuador's debt moratorium, and the reluctance of the commercial banks to lend to the Philippines and certain Latin American countries, do you still believe that the debtors, creditors and commercial banks are working "hand-in-hand"?

MR. CONROW: We believe that the debtors, creditors and commercial banks are working together to resolve the debt problem. Admittedly, progress on the third leg of the strategy -- commercial bank lending -- has been slower to develop and by the end of 1986 was clearly inadequate. To some extent, this is due to the process involved: under concerted lending procedures, commercial bank loans only come into play after debtor reform programs have been developed and have in most cases received IMF and World Bank support. This takes time, and should not have been expected to produce a large increase in bank lending within the first few months of 1986.

However, while some new money became available for Ecuador and Uruguay, agreements in principle were reached for new loans to Mexico and Nigeria, and approximately $68 billion in outstanding debt were rescheduled at longer maturities, with lower rates and spreads. Delays in completing the Mexican package have slowed progress on other new money packages. The Mexican package is now 97 percent subscribed and formal signing is schedule to begin on March 20. To conclude this and other financial packages, the commercial banks themselves will have to come to some "meeting of the minds" on how to deal with banks with smaller exposures which have refused to provide any new lending.

The backlog of other financial packages must also be reduced as soon as possible. There is some evidence that this is already happening. The commercial banks recently reached agreement with Chile on a retiming and repricing arrangement and with Venezuela on a rescheduling of principal payments due on previously rescheduled debt at lower spreads. In addition, the Philippines and the banks resumed debt rescheduling negotiations early in March. Progress in these discussions, as well as with Argentina and Brazil, should result in substantial net new commercial bank lending to the major debtors in 1987.

Regarding the moratoria, we regret the decision taken by Brazil but do expect the problems arising from this action will be resolved in the context of its negotiations with the private creditors. Ecuador has been holding good-faith discussions with its private creditors and they should also be able to resolve their differences.

LOW INCOME AFRICA

SENATOR INOUYE: Mr. Conrow, Between 1980 and 1984, the debt of low income African nations increased by 26 percent or $7.2 billion. Yet, compared to 1980, in 1988 the Administration is requesting $33 million less in aid than in 1980. Can these nations possibly cope with a $7.2 billion increase in debt when economic support is reduced by $33 million?

MR. CONROW: The Adminisration is committed to helping African countries overcome their economic problems. However, we need to take account of budgetary realities and our requested level of bilateral aid in FY 1988 takes into account these realities. I should note, though, that African countries stand to receive substantial benefits from IDA VIII, 45 to 50 percent of which is contemplated for use in Sub-Sahara Africa. Our FY 1988 request includes funding for our full share of IDA VIII.

AFRICAN RAIL LENDING

MR. INOUYE: Mr. Conrow, What was the total amount loaned for rail and related projects by the African Development Bank and Fund between 1975-1980 and 1981-1986?

MR. CONROW: The information on railroad projects is as follows:

AFRICAN DEVELOPMENT BANK/FUND PROJECTS FOR RAILROADS a/
1975-1986

COUNTRY	DATE APPROVED	PROJECT	AMOUNT b/
Cameroon	2/85	Douala Yaounde RR	22.80
Congo	4/76	Re-alignment Congo-Ocean III	5.00
Congo	6/78	Re-alignment Congo Ocean IV	5.00
Congo	9/79	Congo Railways	2.80
Congo	12/84	Congo-Ocean	2.20
Gabon	9/74	Transgabonaise	4.00
Ghana	4/81	Railways	10.00
Kenya	10/80	Railways	10.00
Mali/Senegal	6/82	OMRS Railways	6.65
Niger/ Ivory Coast	5/72	Rolling Stock I	3.00
Niger/ Ivory Coast	7/76	Rolling Stock II	5.00
Togo	12/76	Railways (CIMAO)	5.00
Tunisia	9/77	Railway Wagons	4.20
Tunisia	6/83	SFAX Railways	11.00
Zaire	4/79	Railways (SNCZ)	8.00
Zaire	6/84	Railways	13.80
Zambia	11/79	Railways I	8.00
Zambia	12/85	Railways II	20.00
		TOTAL	146.45

a/ There were no projects financed by the Fund.
b/ In millions of units of account equivalent to 1 SDR.

Source: African Development Bank: Financial Statements (March 31, 1986)

TRANSGABON RAILROAD

SENATOR INOUYE: Mr. Conrow, in a special section of Institutional Investor the African Development Bank highlights its support of the Transgabon Railway.

What is the cost of this total project? What are the environmental implications of this project? How did the U.S. vote on this project?

MR. CONROW: The 1974 Bank loan was for 4.0 Bank units of Account. The United States was not a Bank member at the time, so there was no U.S. vote cast. We have no information on the environmental implications of the project

AFDB STUDIES

SENATOR INOUYE: Mr. Conrow, A very large percentage of the funds provided by the African Development Bank in 1985 are for studies.

Do the soft loan windows of other regional banks fund such a large percentage of studies? Please compare the amounts used for studies in each bank, as totals and as a percentage of the Bank's or fund's total lending for the three most recent years for which information is available?

MR. CONROW: It is true that the African Development Fund did provide for a large number of studies, 26 in fact, for $27.6 million during FY 1985, but as a percentage of funds lent it represented only 5.6 percent of the total. Similarly, in the previous year, the AFDF financed 15 studies for $13.6 million but again it represented only 4 percent of AFDF funds lent.

The hard windows, per se, do not fund very many studies. The relative importance of studies varied among the soft windows of the MDBs in the past three years from 0 in the Asian Development Fund to 16.4 percent for the Fund for Special Operations in the Inter-American Development Bank. The percentages for the soft windows are as follows:

	U.S. Fiscal Year		
Window	85	84	83
AFDF	5.6	4.0	1.0
ADF	-	-	-
FSO	11.0	16.4	6.2
IDA	1.5	3.4	1.2

IADB AND RAILROADS

SENATOR INOUYE: Mr. Conrow, Is it true that the Inter-American Development Bank does not provide loans for railroads because of its experience that the debtor nations will not charge sufficient tariffs to cover the operating costs of those railroads?

MR. CONROW: The Inter-American Development Bank's operational policies do not preclude lending for railway projects. Normal economic criteria would have to be met.

SENATOR INOUYE: Your documents state that the AFDB is "Africa's most important Development Institution".

Has the AFDB received in the last five years requests for loans to rebuild the Beira Rail Corridor, the Northern Rail Corridor (linking Southern Africa with Dar es Salaam), and the Nacala - Malawi Rail Corridor?

MR. CONROW: In the last five years AFDB has not received any requests for loans to rebuild the railroads you mentioned. However, among the projects scheduled to be financed by the Bank Group in 1987 is a $22 million Beira Corridor Transport Rehabilitation project. The aim of the project is to arrest further deterioration of Beira-Machipanda road. This is the most important road in the Beira Port Transport System since it provides road connections to Zimbabwe, Zambia and Malawi. The AFDF-financed feasibility study which was

completed in April 1985 concluded that the rehabilitation is justified with internal rates of return between 20 percent and 60 percent for the different sections of the road.

REGIONAL BANKS AND U.S. INTERESTS

SENATOR INOUYE: Mr. Conrow, Several years ago a study was published in the journal International Organizations, which compared the Asian Development Bank and the Inter-American Development Bank. The study reached two conclusions on which I would like you to comment.

First, with regard to the Asian Bank, the study concluded that there was a strong correlation between Japan's trading interests and Asian Bank loan activity. There was a negative correlation between U.S. trading interests and the Asian Bank's lending.

Second, with regard to the Inter-American Development Bank, the study found there was no relationship between U.S. trading interests and Inter-American Development Bank transfers on a per capita basis.

Are you aware of this study? Do you believe that the conclusions are correct? Does the U.S. government have a policy on whether loans by regional banks to which we are major contributors should reflect U.S. trading interests.

MR. CONROW: I am aware of the article "Power Structures and Regional Development Banks" by Stephen Krasner, which appeared in International Organizations in 1981. Although the article made some interesting observations about the history and the distribution of power within the regional banks, I cannot agree with the conclusion you are suggesting.

Dr. Krasner wrote as a political scientist rather than as an economist, and his article therefore contained very little economic analysis. The numbers for the key table correlating U.S. and Japanese economic interests covered the period 1971-1976, and were almost certainly massively influenced by the Vietnam War. Additionally, Krasner did not accuse the Japanese of any unfair economic practices, and he did not recommend a more mercantilist or nationalist approach by the United States in the regional banks.

We believe that the major priority of the MDBs must be to promote economic and social development in their borrowing member countries. The MDBs can best accomplish that task by encouraging borrowing countries to pursue market-oriented private sector economic policies, and by promoting private foreign investment. Overall, such policies are vital for the type of open, competitive, global economy needed by a prosperous America.

Naturally all proposed MDB projects are examined by Treasury and other U.S. Government agencies for compatibility with American producer interests, and conformity with existing U.S. legislation. We also watch procurement policies and regulations closely to ensure fair play for American suppliers. However, we do not believe that the direction of MDB lending should be channeled in order to promote specific U.S. export interests.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

AFRICAN DEVELOPMENT BANK

SENATOR DECONCINI: In February 1986, the GAO reported (GAO/NSIAD-86-48) that the time was opportune to establish a fully independent review and evaluation system in the African Development Bank. In July 1986, the Department of the Treasury noted that the AFDB planned to establish an independent evaluation group reporting directly to the Bank President as part of an overall reorganization plan.

What actions has the Bank taken to actually establish an independent evaluation group and what is the status of the overall plan for the Bank's reorganization?

MR. CONROW: The overall reorganization plan, including the establishment of direct reporting responsibility between the evaluation group and the President, went into effect on March 2, 1987.

AFRICAN DEVELOPMENT BANK

SENATOR DECONCINI: Aid is providing technical assistance to the Bank to help strengthen its institutional capacity to manage its loan portfolio. Would you describe the scope and objectives of this technical assistance program and the problems it is designed to address? Will it deal with the AFDB's evaluation system?

MR. CONROW: The AID project, $15 million through FY91, finances a mix of long-term and short-term technical assistance to AFDB operations, both in general management and for project work and country/sectoral studies. This is complemented by assistance to the training programs of the AFDB, both for its own staff and for those member country agencies' managers who deal with AFDB projects. Modest funding of necessary commodities is also provided, including funds for additional computer hardware to improve the Bank's data processing capacity. A number of technical advisers funded by the AID project are already in place, including a system/data processing manager, an operations and methods specialist, and several sectoral specialist (architect, transport economist, sanitary engineer, agronomist), and others have been selected but are not yet in the Bank, i.e., a project manager, a training adviser, and a financial adviser.

Originally, the AID project included plans to fund the services of a senior evaluations technician. However, the AFDF has direct-hired several evaluation staff since the time that the AID project was originally planned, obviating the need for an additional evaluations specialist. The decision not to provide an evaluation specialist through the AID project was also affected by the AFDB's action to transform its evaluations unit into an office reporting directly to the AFDB president, one of the original goals of the proposed AID assistance. Instead, AID will be funding a sectoral specialist, probably an industrial engineer, for the evaluations staff.

AFRICAN DEVELOPMENT BANK

SENATOR DECONCINI: AID is also providing funding for project pre-investment studies at the AFDB. Why are we providing this type of assistance to the AFDB? Do we provide it for the other MDBs?

MR. CONROW: In addition to short- and long-term technical assistance, funds under the AID project are also made available for preinvestment studies and short-term project preparation and supervision assignments intended to accelerate the loan programs for the poorer countries of Africa in agriculture and rural development. These studies are critical to the improvement of the AFDB's Group's loan portfolio, which continues to experience significant weaknesses. AID monies finance the creation of project preparation documents, terms of reference and other preliminary materials, and expert participation in field missions for project appraisal, supervision and evaluation. This is to ensure that such activities are undertaken in a timely and thorough fashion and also to facilitate access to contracting by American, especially disadvantaged, firms and institutions. The only grant funding available to the AFDB for pre-investment studies is through bilateral technical assistance arrangements; its technical Assistance Account can only provide loans for pre-investment or other studies.

The United States does not currently provide similar direct technical assistance to other MDBs, although in the past we have contributed to the Asian Development Bank's Technical Assistance Special Fund (TASF) from the Trade and Development Program.

ASSISTANCE TO SUPPORT DEMOCRACY

SENATOR DECONCINI: Secretary Baker testified earlier this week asking Congress to support U.S. commitments to international Development Association, the Multilateral Investment Guarantee Agency, and the Asian Fund, among others. His request comes amid renewed concern over the global debt situation. Brazil, the Third World's largest debtor, said last week it was suspending interest payments on its commercial debt. On the other hand, we face trade policy decisions up here on the Hill. If Congress follows hard-line policies of erecting trade barriers to imports, Latin American countries will suffer. This entire region owes $380 billion in external debt. We need to foster democracy in this crucial region but encourage U.S. growth. What other components, in addition to debt repayment, can the U.S. encourage in a comprehensive Latin American policy for strengthening democracy, yet not hurt U.S. trade?

MR. CONROW: We are encouraging the Latin American countries to undertake major growth-oriented reforms. With the implementation of such reforms, we believe that sustainable growth will ensue that will both aid U.S. exports and provide a higher standard of living to the people of Latin America.

Questions Submitted by Senator Harkin

CHILE

SENATOR HARKIN: How would you characterize the economic policies implemented by the Government of Chile to deal with its foreign debt obligations?

MR. CONROW: The GOC has been pursuing a comprehensive program to create conditions for long-term economic growth, while rapidly increasing its ability to service its external debt. Policies include efforts to promote an increase in the national savings rate, reduce government involvement in the economy, and reorient the economy toward export led growth. So far, Chile has made substantial progress toward meeting its objectives, while at the same time experiencing a relatively high level of economic growth.

SENATOR HARKIN: What have been the domestic consequences of the Government of Chile's economic readjustment programs? What has been the impact of those programs on the labor movement in Chile?

MR. CONROW: Real GDP increased by 2.4 percent in 1985 and by 5 percent in 1986. Inflation, which totalled 23 percent in 1984, increased to 26 percent in 1985 and then declined to 17 percent in 1986. Real wages, which fell by 4.2 percent in 1983 and 3.8 percent in 1984, increased by 1.9 percent in 1985 and by an estimated 1.6 percent in 1986. Unemployment, which totalled 14 percent toward the end of 1984, declined to 11.9 percent at the end of 1985 and to 8.4 percent in January 1987.

The ability of the labor movement to achieve higher wages is limited by the weak but improving economy. As the increases in real wages in the past two years indicate, as the economy improves, real wages are expected to go up.

SENATOR HARKIN: What factors does the Treasury Department take into consideration when deciding on how to vote on multilateral development banks on loans to Chile? What role does the human rights situation play? Are labor rights a consideration?

MR. CONROW: In deciding on U.S. votes on multilateral development bank loans to Chile, we have taken a number of different factors into consideration, including various economic and financial factors, human rights practices, effect on production of surplus commodities, etc. Human rights has been a very important factor in a number of loans. In 1985, we abstained on three loans to Chile that did not meet basic human needs. More recently we have abstained on four other loans to Chile that did not meet basic human needs. Labor rights would be one consideration taken into account in assessing the overall human rights situation.

SENATOR HARKIN: How would you compare the performance of Chile in its repayment program with that of other Latin American countries? Do you believe that Chile, because of the nature of its society and the rigid control exerted by the military regime, is better able to control domestic forces that might react to the economic austerity measures required to meet its financial obligations?

MR. CONROW: Given that Chile has one of the highest ratios of external debt to size of the economy, we believe the economic progress it has made represents one of the most impressive programs in Latin America.

We do not believe that sound economic policies are inconsistent with democracy. There are other Latin American nations, for example, Argentina and Ecuador, which have democratic governments, and which are implementing politically difficult growth-oriented economic policies.

SENATOR HARKIN: Do you consider unusual -- in terms of U.S. policies in MDBs -- Secretary Shultz's intervention to block a $58 million loan to Nicaragua in the Inter-American Development Bank. More directly, do you believe that the Secretary's threat to withhold U.S. contributions to the IDB a usual practice in International Financial Institutions?

MR. CONROW: I do not believe that Secretary Shultz's letter would be described as a usual practice. The Secretary was very much concerned about the situation in Nicaragua, including various economic and financial factors, and he wanted to advise the Bank's President of his concerns. He also wanted to indicate how the situation could affect funding for U.S. participation in some of the Bank's programs, especially in the Congress.

SENATOR HARKIN: President Reagan has often included Chile, along with Nicaragua, Paraguay, and Cuba, in a list of repressive regimes in Latin America. If this is the case, is the Administration prepared to use the same extraordinary measures it employed against an IDB loan to Nicaragua against MDB loans to Chile?

MR. CONROW: The Administration is very much concerned about the human rights situation in Chile. As I have indicated already, we have abstained on a number of loans to that country on human rights grounds. We are continuing to press for improvements in a number of ways.

Questions Submitted by Senator Kasten

SENATOR KASTEN: The foreign operations bill also requires Treasury to work with the MDBs to promote energy conservation. In many cases the economic returns to from energy investment or modernization far exceed those of additional generating capacity.

What progress is the Treasury making in promoting loans to encourage energy conservation and alternative generation?

MR. CONROW: Instructions to implement the provisions of the Foreign Assistance and Related Programs Appropriations Act, 1987 were sent to Executive Directors on February 12, 1987. Implementation reports are due later in the year.

SENATOR KASTEN: What is the Inter-American Development Bank doing to implement the environmental reforms contained in the foreign operations bill?

MR. CONROW: Since the Congress began consideration of environmental legislation in mid-1985, the Inter-American Development Bank has taken several steps to strengthen the environmental aspects of its activities.

First, the inter-departmental Committee on Environmental Management has become noticeably more active in the last two years, reviewing a significant number of project proposals and meeting more regularly.

Second, the Bank's Project Review and Analysis Department instituted a system to flag projects with significant elements involving the environment or indigenous peoples at an early stage. The reponsibility for flagging these projects within the Bank's internal data file rests with the project staff. Reportedly, about a quarter of all Bank projects under preparation have been identified under this system.

Third, in January 1987, the Bank hired a senior environmental specialist as a consultant with responsibility to work with Bank staff on significant environmental issues in planned projects or those in implementation.

Fourth, the Bank has convened a conference of environmental and developmental agencies in borrowing countries which will meet in May 1987. This conference could represent a significant step toward improved inter-sectoral coordination within borrowing countries and with the Bank staff.

Questions Submitted by Senator D'Amato

SENATOR D'AMATO: The most serious foreign debt problems are in Central and South America. What kind of coordination mechanism exists between the World Bank and the Inter-American Development Bank to ensure that money is most efficiently loaned?

What kind of coordination exist between the Agency for International Development and the Inter-American Development Bank?

MR. CONROW: The IDB coordinates regularly and at many levels with the World Bank and AID. For example, the Executive Vice President of the IDB meets periodically with his World Bank counterparts and key management officials to discuss common concerns and joint efforts of the two institutions. Both the IDB and World Bank participate in consultative groups established precisely to ensure needed coordination of donor efforts. The IDB and World Bank also cooperate and jointly finance specific projects.

In the case of AID, there has been close coordination and collaboration between the professional staffs of the two institutions, both in Washington and in the field. The exchanges include specific economic problems, development issues such as the environment, and responses to natural disasters. In some countries the Bank and AID have collaborated in joint efforts, as in preinvestment studies.

The goal of this kind of collaboration is to minimize duplication of effort while maximizing each institution's contribution to Latin America's social and economic development.

QUESTIONS SUBMITTED BY SENATOR NICKLES

SENATOR NICKLES: Please specify each loan made by the multilateral development banks stating the conditions, terms, use, and amount. This should cover loans made since 1980.

Also, summarize the loans presently under consideration by the banks.

MR. CONROW: The Treasury Department submits to the Congress annually the Annual Report of the National Advisory Council on International Monetary and Financial Policies. This report provides full information on multilateral development bank activities, including descriptions of all loans, and U.S. votes on all loans. Unfortunately, the FY 1986 volume has not yet been completed. For 1986 we have a listing which is adopted from the quarterly reports submitted by Treasury to the Congress as part of our compliance with human rights legislation.

We also have documents listing most possible future projects in the multilateral development banks except for the African Development Bank and Fund. It should be noted that many of these possible future projects will probably be dropped before reaching the loan approval stage.

We will provide these documents to your staff.

SUBCOMMITTEE RECESS

Senator INOUYE. The subcommittee will now stand in recess until 10 a.m., March 12. At that time we will hear the justification for the President's request for fiscal year 1988 funding of U.S. contributions to international organizations and programs.

[Whereupon, at 3:07 p.m., Thursday, February 26, the subcommittee was recessed, to reconvene on Thursday, March 12.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1988

THURSDAY, MARCH 12, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:55 a.m., in room S–128, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, DeConcini, Harkin, Mikulski, Kasten, and Nickles.

UNITED NATIONS

U.S. PERMANENT REPRESENTATIVE

STATEMENT OF THE HONORABLE VERNON A. WALTERS, U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

ACCOMPANIED BY:

DEPARTMENT OF STATE

ALAN KEYES, ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS

AGENCY FOR INTERNATIONAL DEVELOPMENT

RICHARD BISSELL, ASSISTANT ADMINISTRATOR FOR POLICY PROGRAMMING AND COORDINATION, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. The subcommittee will please come to order.

This morning, we continue our examination of the President's request for fiscal year 1988 funding of foreign assistance and related programs. Today, we will hear testimony in support of funding requests for U.S. "voluntary" contributions to various international organizations and programs. These contributions are made to the voluntary programs of the UN and other organizations, and are distinct from the so-called "assessed contributions" which follow from U.S. commitments governing participation in the United Nations.

INTRODUCTION OF WITNESSES

The subcommittee is fortunate to have before it today the Honorable Vernon A. Walters, the U.S. Permanent Representative to the United Nations. Ambassador Walters will offer the overall justification for U.S. participation in these programs as well as commentary on their relative importance to U.S. interests abroad.

Ambassador Walters will be joined by Mr. Alan Keyes, the Assistant Secretary of State for International Organization Affairs. Mr. Keyes is very knowledgeable about the detailed operation of the various international organizations to which the United States makes voluntary contributions. He has the responsibility of ensuring that the United States pursues a consistent and effective policy across-the-board in its participation in these organizations.

Finally, we will hear from Mr. Richard Bissell, the Assistant Administrator of the AID for Policy Programming and Coordination. Mr. Bissell is the person in our government having primary responsibility for U.S. participation in the International Fund for Agricultural Development. Mr. Bissell has recently returned from a visit to IFAD's headquarters in Rome and will be able to provide an up-to-date report on IFAD activities.

Gentlemen, we welcome you to the Subcommittee. We have received your prepared statements, and without objection they will be inserted in full in the record. In the interest of time, and a more spontaneous exchange of views, may I ask that you summarize your statement and that you be brief in your opening remarks.

We will begin with Ambassador Walters. Once again, welcome, sir.

Ambassador WALTERS. Mr. Chairman, as you have just noted, my statement has been submitted for the record. With your permission, I will thus attempt to summarize the main points.

Approximately 40 years ago, I was privileged to be chosen by Governor Averell Harriman to assist him in his ambitious efforts to organize the Marshall Plan and open the way for NATO.

One of the most vivid impressions I have of this period was that I went with Mr. Harriman to Essen, a large German industrial city of a million people, which was totally leveled. There was just nothing standing. I kept asking myself, as I looked at this, how can they ever rebuild this? It is on such a scale, I don't know how they can ever rebuild it.

One day, we went down into a cellar in Essen, to visit a German family. As we came out, I said to Mr. Harriman, I wonder, if I live to be a very old man, will I ever see a German city rebuilt. He said, "Yes, of course. Did you see what was on the table in the basement?" I said, "Yes, flowers." He nodded, and he said, "Any people who, in the midst of this desolation, think of putting flowers on the table, will rebuild the cities." As you know, they did.

SUCCESS OF MARSHALL PLAN

Not long after that, the Marshall Plan chose as its symbol of hope, something which I thought was quite extraordinary. It was a dark sky with lightning flashing. It was a tree stump cut off, and from it came one bright flowering shoot, which is the symbol of hope in the future. It reflected American faith in human resiliance, and optimism about a peaceful and prosperous Europe.

NATO and the Marshall Plan proved to be the tools with which the Europeans recreated modern Western Europe. American assistance and Western European industriousness were the key factors leading to that success. The free and prosperous nations of Western Europe today are ample evidence of this hope fulfilled.

Now, 39 years later, I find myself the American representative to another organization born in the same post-war era of idealism and hope, the United Nations. Indeed, it is in this capacity that I am here today to talk with you about two U.N. organizations with goals and problems not unlike those of the Marshall Plan. I refer, of course, to the United Nations Development Program, and to the United Nations Children's Fund.

From their very inception, these organizations have retained the special commitment of the American people. We have consistently remained the driving force by providing voluntary contributions to programs which assist the stricken children of the world and help those who would help themselves. In so doing, these programs have directly served the interests and purposes of our country.

UN DEVELOPMENT PROGRAM

The largest voluntary contribution has been made year after year to the United Nations Development Program, which has long been one of the most effective U.N. agencies, under the direction of a series of exceptionally capable American administrators—Paul Hoffman, Bradford Morse, and now William Draper.

Through thousands of small-scale projects, UNDP provides governments with technical assistance in formulating development plans and in building up responsible governmental administrative machinery in the fields of agriculture and industrial production, in health, in education, power, transport, communications, and so on. I might add that at the time of the Marshall Plan, it was difficult to find many countries, except the very large ones, who had this kind of ability to administer and plan.

You must remember that about half of the independent states in the world today began life in the last 30 years with little or none of this know-how. Through hundreds of larger-scale projects, UNDP also helps governments survey their resources and locate investment opportunities to move ahead.

The U.S. interest is served by the contribution UNDP makes in this way to economic and political stability, and to well-being, which provides us with both raw materials and markets. I have been to maybe

125 countries since I came to work at the Department of State, and the one conclusion that I have drawn is a very old one. There are no prosperous unstable states. Stability is an essential requirement for any degree of progress and prosperity. Incidentally, we estimate that for every dollar that the United States contributed in 1986, at least a dollar was fed back directly into the U.S. economy through salaries paid to U.S. experts, the purchase of project equipment and technical services from U.S. sources, tuition paid for fellowships at U.S. institutions, and the local expenditures of UNDP headquarters in New York City. Taking into account the multiplier effect of these expenditures, the return to the U.S. economy is larger still. In its worldwide operations over the past 25 years, the United Nations Development Program has generated almost $90 billion of follow-on investment from both public and private sectors.

UN CHILDREN'S FUND

The United States also contributes to the United Nations Children's Fund [UNICEF], a highly visible humanitarian program, strongly endorsed and supported by the American public. Either through the Halloween Trick or Treat Campaign, or the purchase of holiday greeting cards, UNICEF is one of the best-known members of the United Nations family. Under the forceful leadership of its American director, James Grant, UNICEF programs, such as oral rehydration therapy, have saved millions of children's lives. It is also engaged in massive immunization and the assurance of safe rural water supply. American participation in this organization is clearly in our national tradition of neighborly help for the most vulnerable people of all mankind, its children. Our funding request for 1988 is the bare minimum needed to help sustain UNICEF programs worldwide.

I believe strongly that our budget request should be supported. The funds requested for the voluntary agencies are the minimum needed to sustain meaningful efforts in economic and social development, and are already substantially less than we have provided historically in the past. These funds are not supporting large headquarters bureaucracies, but are financing projects that provide tangible benefits to the developing world. We will continue to seek improvements to ensure that our funds will be used effectively, to assist those who need it most among the poor nations of the world. In that regard, let me say that our discussion takes place against a background of most interesting and promising developments at the United Nations which bear directly on this subject.

Last fall's session of the U.N. General Assembly marked the beginning of an effort toward fiscal and administrative reform which holds the promise of restoring the original values of the United Nations, goals enshrined in the U.N. Charter, which commanded the respect and active participation of the United States for decades. To put it very briefly, intense efforts by the United States and like-minded nations of Europe, Asia, Africa, and Latin America, as well as by Secretary-General Perez de Cuellar, have launched a vigorous program of reform of the U.N. budgetary process, as well as economy in personnel and ex-

penditures, as described by me at length in my written statement. If the blueprint laid out now is followed, and there is realistic expectation that it will be, the large contributors, such as ourselves, will have a more direct say in how our contributions are spent. In other words, the United Nations is moving back to sensible standards after a time of indulgence, which aroused so much dissatisfaction in our country and in others.

I am optimistic that the United Nations can make this transition back to the aims expressed in the charter, which after all embodies the values on which this country is based. In fact, we had much to do with inserting them in the Charter of the United Nations.

Thank you, Mr. Chairman.

PREPARED STATEMENTS

Senator INOUYE. Thank you, Mr. Ambassador. Without objection, we will insert your prepared statement plus the prepared statements of Mr. Keyes and Mr. Bissell in the record at this point.

[The prepared statements of Ambassador Walter, Mr. Keyes, and Mr. Bissell follow:]

PREPARED STATEMENT OF AMBASSADOR VERNON A. WALTERS
PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

MR. CHAIRMAN:

BEFORE I DISCUSS THE ADMINISTRATION'S BUDGET FOR SUPPORT OF UN VOLUNTARY ORGANIZATIONS, I WOULD LIKE TO SHARE WITH YOU MY PERCEPTION OF THE REFORMS ADOPTED AT THE 41 ST U.N. GENERAL ASSEMBLY.

THE UNITED STATES ACHIEVED A MAJOR SUCCESS AT THE 41 ST GENERAL ASSEMBLY BY GAINING APPROVAL OF A MAJOR PROGRAM OF ADMINISTRATIVE AND BUDGETARY REFORM. FIRST AND FOREMOST, THE REFORM INCLUDES THE IMPLEMENTATION OF A NEW BUDGET APPROVAL PROCESS. THE NEW PROCESS REQUIRES CONSENSUS IN THE SETTING OF THE BUDGET LEVEL AND THUS GIVES MAJOR DONORS SUCH AS THE UNITED STATES A MUCH GREATER SAY IN HOW THE UNITED NATIONS SPENDS ITS MONEY.

FUTURE BUDGETS WILL CONTAIN A CONTINGENCY FUND TO ELIMINATE THE NEED FOR CONSTANT "ADD-ONS", WHICH HAVE BEEN A FREQUENT CAUSE OF U.S. DISSATISFACTION. LIMITING THE SIZE OF THIS CONTINGENCY FUND WILL FORCE TRADE-OFFS WITH EXISTING OR PROPOSED, LOWER PRIORITY PROGRAMS WHEN NEW ACTIVITIES REQUIRE FINANCING. THE SECRETARY GENERAL HAS ANNOUNCED THAT HE WILL INCLUDE A CONTINGENCY FUND IN THE 1988-89 BUDGET TO BE PRESENTED THIS SPRING, IMPLEMENTING IMMEDIATELY THIS IMPORTANT ELEMENT OF THE NEW BUDGET PROCESS.

SUBSTANTIAL CUTS IN UNITED NATIONS PERSONNEL WILL BE MADE OVER THE NEXT THREE YEARS, REDUCING STAFF LEVELS BY 15 PERCENT.

SENIOR STAFF LEVELS, PLAGUED BY OVERLAPPING RESPONSIBILITIES AND INEFFECTIVE MANAGEMENT IN RECENT YEARS, WILL BE CUT BY 25 PERCENT.

THE REFORM WILL ALSO TIGHTEN CONTROLS OVER UNITED NATIONS MEETINGS AND CONFERENCES, WHICH HAVE PROLIFERATED AT CONSIDERABLE EXPENSE TO THE UNITED STATES AND OTHER MEMBER STATES. THE MEETINGS WILL THUS GIVE GREATER VALUE, IN TERMS OF OUTPUT, FOR THE MONEY SPENT.

IN ACCORDANCE WITH SEVERAL REFORM MEASURES, THE SECRETARY GENERAL IS PLANNING AN EXTENSIVE REORGANIZATION OF THE SECRETARIAT AND MEMBER STATES ARE REVIEWING THE STRUCTURE OF INTERGOVERNMENTAL BODIES. THESE EFFORTS SHOULD GREATLY REDUCE DUPLICATION AND WASTE AND RESULT IN FURTHER CUTS IN PERSONNEL WHILE ENSURING A MORE EFFICIENT FUNCTIONING OF THE ORGANIZATION.

THE REFORM PROVIDES FOR A WIDE RANGE OF ADDITIONAL ECONOMIES, INCLUDING REDUCTIONS IN STAFF TRAVEL AND THE USE OF CONSULTANTS, PLUS TIGHTER PERSONNEL MANAGEMENT, WHICH WILL INCREASE PRODUCTIVITY WHILE IMPROVING STAFF MORALE.

I AM PLEASED TO SAY THAT THE SECRETARY GENERAL MOVED IMMEDIATELY TO BEGIN IMPLEMENTING THESE REFORMS WHEN THEY WERE ADOPTED LAST DECEMBER 19. THE STAFF REDUCTION IS ALREADY HALFWAY TOWARD THE TARGET OF A 15 PERCENT CUT BY THE END OF 1989, THANKS TO A HIRING FREEZE IN EFFECT FOR THE PAST YEAR. IN ADDITION, THE SECRETARY GENERAL HAS REDUCED THE NUMBER OF SENIOR LEVEL POSTS BY NINE, WHICH REPRESENTS ALMOST TWO-THIRDS OF THE 25 PERCENT REDUCTION REQUIRED IN SUCH POSTS OVER THE THREE-YEAR PERIOD.

72-981 0 - 87 - 5

IN FEBRUARY, THE ECONOMIC AND SOCIAL COUNCIL ESTABLISHED A COMMISSION TO SUPERVISE THE LARGEST OF THE REORGANIZATION STUDIES - A REVIEW OF THE INTERGOVERNMENTAL BODIES UNDER ITS PURVIEW, SOME TWO HUNDRED IN ALL. THIS STUDY WILL TAKE A YEAR AND ONE HALF TO COMPLETE AND IT IS EXPECTED TO RESULT IN A MORE RATIONAL STRUCTURE FOR ECONOMIC AND SOCIAL BODIES WITHIN THE UNITED NATIONS SYSTEM.

WE IN THE ADMINISTRATION BELIEVE THAT THESE REFORMS WILL PUT THE UNITED NATIONS ON A FIRMER MANAGEMENT FOOTING, SO THAT THE ORGANIZATION CAN BETTER SERVE THE INTERESTS OF MEMBER STATES, INCLUDING THE UNITED STATES. WE WILL BE WORKING CLOSELY WITH OTHER DELEGATIONS AND WITH THE UNITED NATIONS SECRETARIAT TO MONITOR THE REFORMS AND ENSURE THAT THE APPROVED REFORMS ARE FULLY IMPLEMENTED.

THE NEED FOR ADMINISTRATIVE REFORM AND TIGHTER MANAGEMENT IS NOT UNIQUE TO THE UNITED NATIONS AMONG INTERNATIONAL ORGANIZATIONS. THIS IS CERTAINLY TRUE FOR THE DEVELOPMENT AND HUMANITARIAN AGENCIES OF THE UN, TO WHICH WE CONTRIBUTE VOLUNTARY FUNDS AND WHICH ARE THE SUBJECT OF TODAY'S HEARING, MAKE THE MOST EFFICIENT USE OF THE RESOURCES MADE AVAILABLE TO THEM, BECAUSE THEIRS IS THE CRITICAL TASK OF ASSISTING THE POOR IN THE DEVELOPING COUNTRIES OF AFRICA, ASIA AND LATIN AMERICA.

THE UNITED STATES HAS TAKEN AN ACTIVE ROLE IN ENCOURAGING UNDP, UNICEF, AND OTHER UN VOLUNTARY AGENCIES TO TAKE A CLOSE LOOK AT THEIR MANAGEMENT STRUCTURES, HEADQUARTERS AND OVERHEAD COSTS. WE HAVE INSTILLED IN THESE ORGANIZATIONS A GREATER SENSE OF DISCIPLINE AND TIGHTER MANAGEMENT. IN UNICEF, FOR EXAMPLE, TRAVEL COSTS OF STAFF WERE REDUCED 23 PERCENT BETWEEN 1985 AND

1986. Over 100 positions were eliminated and functions combined to lessen staff needs. The United States continues to stress the importance of closer collaboration among the voluntary agencies to avoid duplication of effort, and we see definite progress in this area such as collaboration on major child immunization programs involving both the World Health Organization and UNICEF.

Let me turn now to the Administration's Budget Request in support of these United Nations Voluntary Organizations. In December I served as President of the Security Council, a forum which all too frequently deals with issues of war and peace. And yet, when I speak to the majority of my colleagues at the UN, the matters of life and death for their own people concern them most. My colleagues are preoccupied with the daily problems of hunger, health and housing. Frankly, for most nations, these ever-present problems take a far greater toll of human life than do clashes on the fields of combat.

As I have travelled throughout the world to more countries than I would care to count, I have witnessed time and time again the effects of oppressive poverty and deprivation. For the unfortunate in many of these countries, the development and humantiarian agencies of the United Nations are providing life-giving support. Equally as important, they provide hope.

The American people can be proud of the role the U.S. has played in funding the work of the development agencies. American leadership in humanitarian assistance has been one of the marks of this great nation. For instance, the U. S.

CONTRIBUTION TO DEVELOPMENT ASSISTANCE IS FIFTY TIMES THAT OF THE SOVIET UNION. IN UN CIRCLES THIS DIFFERENCE IS WIDELY RECOGNIZED AND HAS CONTRIBUTED SUBSTANTIALLY TO BROADENING AMERICAN INFLUENCE IN INTERNATIONAL AFFAIRS. THE CONTRIBUTIONS WHICH ARE PROPOSED FOR THE UNITED NATIONS DEVELOPMENT PROGRAM, THE UNITED NATIONS CHILDREN'S FUND, AND THE UNITED NATIONS ENVIRONMENTAL PROGRAM, TO CITE BUT A FEW, MUST BE MAINTAINED AT THE LEVELS REQUESTED IF WE ARE TO ENCOURAGE THESE ORGANIZATIONS IN THEIR EFFORTS TO PROVIDE MUCH-NEEDED HELP TO THE WORLD'S POOREST REGIONS. WHILE OVER THE COMING MONTHS THE DEGREE TO WHICH WE SUPPORT UN ORGANIZATIONS AS A WHOLE WILL DEPEND LARGELY ON HOW WELL REFORMS MENTIONED EARLIER ARE CARRIED OUT, IT IS NOT OUR INTENT TO HURT THE GENUINELY VALUABLE PROGRAMS THAT ARE CRUCIAL TO IMPROVING THE DAILY LIVES OF THE WORLD'S POOR.

SUPPORT OF THE UN DEVELOPMENT AGENCIES IS AN IMPORTANT EXPRESSION OF THE UNITED STATES' WILL TO HELP UNFORTUNATE PEOPLE THROUGHOUT THE DEVELOPING WORLD. FURTHERMORE, OUR CONTRIBUTIONS ARE CRITICAL IF WE ARE TO EXPECT OTHER DONORS TO SHARE IN THE BURDENSOME TASK OF HELPING WEAKER ECONOMIES GROW AND OF ALLEVIATING HUMAN SUFFERING. THE ADMINISTRATION'S REQUEST CLEARLY EXPRESSES OUR DETERMINATION TO CONTINUE OUR VITAL SUPPORT TO THOSE UN ORGANIZATIONS WHICH PROVIDE EFFECTIVE AND WORTHWHILE ASSISTANCE TO THE DEVELOPING WORLD AND WHICH SHOW FISCAL RESPONSIBILITY IN THE MANAGEMENT OF THEIR PROGRAMS. THE UNDP IS THE MOST IMPORTANT OF THESE ORGANIZATIONS, AND WHILE WE CONTINUE TO GIVE IT STRONG SUPPORT IN RECOGNITION OF ITS CRUCIAL MISSION, REALISTICALLY WE HAVE HAD TO DIMINISH THE LEVEL OF OUR BUDGET REQUEST FOR THIS ORGANIZATION IN LINE WITH OUR OWN BUDGET STRINGENCIES.

THE UNDP IS A MAJOR FORCE IN PROVIDING DEVELOPMENT ASSISTANCE TO THE WORLD'S POOREST COUNTRIES. FURNISHING DEVELOPMENT ASSISTANCE TO SOME 150 COUNTRIES AND TERRITORIES, THE UNDP CURRENTLY SUPPORTS SOME 5,000 PROJECTS VALUED AT OVER $7 BILLION. IT IS UNIVERSALLY ACCLAIMED AS DOING AN EXCELLENT JOB IN HELPING GOVERNMENTS IN THE FIELDS OF AGRICULTURAL AND INDUSTRIAL PRODUCTION, ENERGY, TRANSPORT, COMMUNICATIONS, HEALTH, AND EDUCATION. IT HAS 112 FIELD OFFICES AND WORKS THROUGH 36 INTERNATIONAL ORGANIZATIONS, PROVIDING A GREATER VARIETY OF SERVICES THAN ANY OTHER DEVELOPMENT INSTITUTION. IT ADDRESSES BOTH LONG-TERM ECONOMIC PROBLEMS AND EMERGENCY NEEDS. DURING THE FAMINE IN CHAD, FOR EXAMPLE, IT OVERCAME A MAJOR BOTTLENECK IN TRANSPORTING VITAL FOOD SUPPLIES BY INSTALLING AN EMERGENCY BRIDGE ACROSS THE LOGONE RIVER TO TRUCK FOOD TO THE STRICKEN PEOPLE. IT PROVIDES EXPERTS TO ADVISE ON CURBING INFLATION IN COSTA RICA, OR MEDICAL STAFF TO COMBAT TROPICAL DISEASES, AND WITH ITS WORLDWIDE NETWORK OF COUNTRY OFFICES IT FACILITATES THE EXCHANGE OF INFORMATION AND EXPERTISE AMONG DEVELOPING COUNTRIES. IN 1985, THE UNDP FINANCED 1,534 STUDENTS FOR TRAINING IN THE UNITED STATES. OVER THE PAST 25 YEARS, UNDP-FINANCED ACTIVITIES IN THE COMMUNICATIONS, TRANSPORT, EDUCATION, INDUSTRIAL AND OTHER SECTORS HAVE GENERATED ALMOST $90 BILLION OF FOLLOW-ON INVESTMENT FROM BOTH PUBLIC AND PRIVATE SOURCES.

THE UNITED STATES FURTHERMORE BENEFITS DIRECTLY FROM UNDP ACTIVITIES WORLDWIDE. EVERY DOLLAR THE U.S. CONTRIBUTED IN 1986 WAS MATCHED BY AN EQUAL AMOUNT WHICH FLOWED DIRECTLY BACK INTO THE U.S. ECONOMY THROUGH SALARIES PAID TO U.S. EXPERTS, ORDERS FOR PROJECT EQUIPMENT AND TECHNICAL SERVICES AND EXPENSES OF UNDP HEADQUARTERS IN NEW YORK.

THE UNITED STATES, OWING TO ITS POSITION AS A MAJOR DONOR TO THIS ORGANIZATION, HAS BEEN AN INFLUENTIAL AND DECIDING FORCE IN SHAPING UNDP POLICY AND HISTORICALLY HAS PLAYED A KEY ROLE IN UNDP'S DECISION-MAKING PROCESS IN TERMS OF ALLOCATION OF RESOURCES AND CHOICE OF PROJECTS.

THE UNDP IS HEADED BY AN AMERICAN, WILLIAM H. DRAPER, WHOSE DYNAMIC LEADERSHIP HAS RESULTED IN THE ORIENTATION OF UNDP PROGRAMS IN DIRECTIONS CONSONANT WITH UNITED STATES INTERESTS AND DEVELOPMENT POLICY. FOR EXAMPLE, THREE OF THE UNDP'S MAJOR THEMES FOR DEVELOPMENT ARE LARGELY DUE TO MR. DRAPER'S FORCEFUL INTERVENTION. THE GREATER INTEGRATION OF WOMEN IN ALL ASPECTS OF ECONOMIC DEVELOPMENT, THE EXPANDED ROLE OF NON-GOVERNMENTAL ORGANIZATIONS IN THE IMPLEMENTATION OF UNDP PROGRAMS, AND THE INCREASED FOCUS BY THE UNDP ON PROJECTS TO PROMOTE THE PRIVATE SECTOR ARE ALL THE RESULT OF UNITED STATES INFLUENCE.

UNITED STATES CONTRIBUTIONS TO OTHER KEY UNITED NATIONS INSTITUTIONS INVOLVED IN ECONOMIC DEVELOPMENT AND HUMANITARIAN ASSISTANCE TO THE WORLD'S POOREST REGIONS ALSO NEED TO BE MAINTAINED IF WE ARE NOT TO LOSE OUR CREDIBILITY AMONG THE DONOR COMMUNITY. OUR SUPPORT TO THE UNITED NATIONS CHILDREN'S FUND (UNICEF), A HIGHLY VISIBLE, HUMANITARIAN PROGRAM WHICH THE AMERICAN PUBLIC STRONGLY ENDORSES, MUST NOT BE ALLOWED TO FALL BELOW THE LEVEL REQUESTED, AN AMOUNT WHICH IS ALREADY SOME $20 MILLION LESS THAN WAS APPROPRIATED IN 1987. UNDER THE FORCEFUL AND IMAGINATIVE LEADERSHIP OF ITS AMERICAN DIRECTOR, MR. JAMES GRANT, UNICEF PROGRAMS SUCH AS ORAL REHYDRATION THERAPY (ORT) WHICH USES A SIMPLE SOLUTION OF SALT, SUGAR AND WATER TO PREVENT DEHYDRATION HAVE SHOWN REMARKABLE SUCCESS IN SAVING MILLIONS OF CHILDREN'S LIVES. MASSIVE CHILDHOOD IMMUNIZATION

AND ASSURING SAFE RURAL WATER SUPPLIES ARE OTHER OF UNICEF'S MAJOR PREOCCUPATIONS. THESE PROGRAMS MUST CONTINUE, AND OUR FUNDING REQUEST FOR 1988 IS THE BARE MINIMUM NEEDED TO HELP SUSTAIN UNICEF PROGRAMS WORLDWIDE.

MR. CHAIRMAN, I WOULD LIKE TO MENTION BRIEFLY WHAT HAS BEEN THE HISTORICAL PATTERN OF OUR CONTRIBUTIONS TO THE UNDP AND WHY I BELIEVE STRONGLY THAT OUR BUDGET REQUEST SHOULD BE SUPPORTED.

OUR LEADERSHIP ROLE IS IN DANGER OF BEING ERODED IF WE ARE NOT SUCCESSFUL IN ACHIEVING THE LEVEL OF U.S. CONTRIBUTIONS REQUESTED. IN THE FOUR-YEAR PERIOD 1985-88, U.S. CONTRIBUTIONS TO THE UNDP WILL HAVE DROPPED FROM $165 MILLION ANNUALLY TO $90 MILLION, OR A DECLINE OF 45 PERCENT. IN 1987, OUR PLEDGE TO UNDP REPRESENTED ONLY ABOUT 12 PERCENT OF TOTAL PLEDGED CONTRIBUTIONS WHEREAS IN YEARS PAST WE PROVIDED ABOUT ONE QUARTER OF TOTAL SUPPORT TO THIS ORGANIZATION. OTHER DONORS HAVE INCREASED THEIR CONTRIBUTIONS BY 8 PERCENT OR MORE THIS YEAR AND ARE BEGINNING TO QUESTION U.S. LEADERSHIP. WE UNDERSTAND THAT SWEDEN INTENDS TO INCREASE ITS 1988 PLEDGE BY 10 PERCENT ABOVE 1987, PUTTING SWEDEN IN FIRST RANK AMONG DONORS TO UNDP AND PLACING THE UNITED STATES IN SECOND PLACE FOR THE FIRST TIME.

IN CONCLUSION, THE FUNDS REQUESTED FOR THE VOLUNTARY AGENCIES ARE THE MINIMUM NEEDED TO SUSTAIN MEANINGFUL EFFORTS IN ECONOMIC AND SOCIAL DEVELOPMENT. THESE FUNDS ARE NOT SUPPORTING LARGE, HEADQUARTERS BUREAUCRACIES, AS HAS BEEN THE CASE IN THE PAST WITH THE UN ITSELF, BUT ARE FINANCING PROJECTS THAT PROVIDE TANGIBLE BENEFITS TO THE DEVELOPING WORLD. WE WILL CONTINUE TO MONITOR ACTIVITIES AND ECONOMIC MANAGEMENT

IMPROVEMENTS TO ENSURE THAT OUR FUNDS WILL BE USED EFFECTIVELY TO ASSIST THOSE WHO NEED IT MOST AMONG THE POOR NATIONS OF THE WORLD.

THANK YOU, MR. CHAIRMAN.

PREPARED STATEMENT OF ALAN L. KEYES
ASSISTANT SECRETARY OF STATE

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

LAST SPRING, AMBASSADOR WALTERS AND I APPEARED BEFORE THE COMMITTEE AND DISCUSSED, AMONG OTHER THINGS, THE IMPACT OF THE GRAMM-RUDMAN-HOLLINGS LEGISLATION ON U.S. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS. AT THAT TIME, WE PROMISED TO PURSUE SERIOUS EFFORTS TO REFORM THE UN'S BUDGET DECISION MAKING PROCESSES. SINCE THEN THE UNITED NATIONS GENERAL ASSEMBLY HAS ADOPTED A SIGNIFICANT REFORM PACKAGE, ONE THAT COULD MEASURABLY INCREASE THE INFLUENCE OF MAJOR CONTRIBUTORS SUCH AS THE UNITED STATES OVER THE BUDGET AND MANAGEMENT OF THE UNITED NATIONS ORGANIZATION. OF COURSE, THE REAL PROOF OF REFORM WILL BE IN THE IMPLEMENTATION. JUST AS WE PLEDGED LAST YEAR TO DO OUR UTMOST TO ACHIEVE NECESSARY REFORMS, WE PLEDGE NOW TO CONTINUE OUR EFFORTS TO ASSURE THAT THEY WILL BE EFFECTIVELY CARRIED OUT.

NOTHING WE HAVE DONE, HOWEVER, WOULD HAVE BEEN POSSIBLE WITHOUT THE SERIOUS, INFORMED CONCERN AND SUPPORT OF THE CONGRESS -- NOTHING WE HAVE DONE AND NOTHING WE HOPE TO DO. GIVEN THE CRITICAL IMPORTANCE OF YOUR COOPERATION, MR.

CHAIRMAN. I WOULD LIKE TO BRIEFLY UPDATE YOU AND THE MEMBERS OF THE COMMITTEE ON THE ACTIONS TAKEN BY THE 41ST GENERAL ASSEMBLY BEFORE ADDRESSING THE SPECIFICS OF THE REQUEST.

ON DECEMBER 19, 1986, THE UN GENERAL ASSEMBLY ENACTED BY CONSENSUS A PACKAGE OF ADMINISTRATIVE AND FINANCIAL REFORMS. THE KEY FEATURE IN THIS PACKAGE IS A BUDGET MECHANISM WHICH HAS BEEN DEVISED CONTAINING FOUR ESSENTIAL ELEMENTS:

--A BUDGET CEILING;
--AN INDICATION OF PROGRAM PRIORITIES;
--A PROVISION FOR A LIMITED CONTINGENCY FUND WHICH WILL PROTECT THE INTEGRITY OF THE BUDGET FROM CONSTANT ADD-ONS; AND
--MOST IMPORTANTLY, A CONSENSUS DECISION-MAKING PROCESS.

TO IMPLEMENT THESE FEATURES, THE MANDATE OF AN EXISTING COMMITTEE, THE COMMITTEE FOR PROGRAM AND COORDINATION, OR CPC, HAS BEEN STRENGTHENED SO THAT THE CPC MAY UNDERTAKE ITS IMPORTANT NEW RESPONSIBILITIES IN CONSIDERING THE SECRETARY GENERAL'S PROGRAM BUDGET OUTLINE AND SUBMITTING ITS CONCLUSIONS AND RECOMMENDATIONS TO THE GENERAL ASSEMBLY.

THE CPC WILL OPERATE ON A CONSENSUS BASIS. THEREFORE, ITS RECOMMENDATIONS SHOULD BE A CLEAR INDICATION OF MEMBER STATES' INSTRUCTIONS TO THE SECRETARY GENERAL FOR THE FORMULATION OF HIS DRAFT BUDGET. THE CONSENSUS REQUIREMENT ASSURES THAT THE COMMITTEE'S DECISIONS WILL REFLECT AN AGREEMENT WHICH INCLUDES THE UNITED STATES AND OTHER MAJOR CONTRIBUTORS. THE CPC RECOMMENDATIONS WILL THEN GO THROUGH THE ADMINISTRATIVE AND BUDGETARY COMMITEE, ALSO KNOWN AS THE FIFTH COMMITTEE, TO THE

GENERAL ASSEMBLY. WHILE THE GENERAL ASSEMBLY DOES NOT EMPLOY THE SAME DECISION PROCESS AS THE CPC, WE ARE CONFIDENT THAT CONSENSUS IN THE CPC WILL BE SUPPORTED BY ALL MEMBER STATES IN THE FIFTH COMMITTEE AND THE GENERAL ASSEMBLY.

AS A RESULT OF WHAT WE HAVE ACHIEVED, MEMBER STATES, THROUGH GOOD FAITH NEGOTIATION, WILL NOW ACT BY CONSENSUS ON IMPORTANT PROGRAM BUDGET ISSUES THAT PREVIOUSLY PROVED SO DIVISIVE. THIS IS FUNDAMENTAL, INDEED ABSOLUTELY ESSENTIAL, FOR THE LONG-TERM VIABILITY OF THE UNITED NATIONS. WERE THIS NEW PROCESS TO BREAK DOWN, THE BASIS FOR RENEWED CONFIDENCE IN THE ORGANIZATION, PARTICULARLY AMONG THE MAJOR CONTRIBUTORS, WOULD BE SHATTERED. WE WOULD FIND OURSELVES BACK WHERE WE STARTED, IN A SITUATION UNACCEPTABLE TO ALL AND DANGEROUS TO THE FUTURE OF THE UNITED NATIONS SYSTEM.

AS I MENTIONED EARLIER MR. CHAIRMAN, THE REAL PROOF OF REFORM WILL BE IN THE IMPLEMENTATION. THAT IMPLEMENTATION WILL REQUIRE GOOD FAITH EFFORTS ON THE PART OF THE SECRETARIAT AND THE OTHER MEMBERS STATES. IT WILL ALSO REQUIRE RENEWED CONSISTENCY IN THE FINANCIAL SUPPORT PROVIDED TO THE ORGANIZATION, COMMENSURATE WITH THE RESULTS ACHIEVED THROUGH THE REFORMED PROGRAM BUDGETING PROCESS. AS WE MOVE THROUGH THAT PROCESS THIS YEAR, WE WILL KEEP YOU AND OTHER MEMBERS OF THE COMMITTEE UP-TO-DATE ON THE IMPLEMENTATION OF THE REFORM PACKAGE.

MR. CHAIRMAN, I COME BEFORE YOUR COMMITTEE TODAY IN ORDER TO PRESENT THE PRESIDENT'S FISCAL YEAR 1988 BUDGET REQUEST OF $194 MILLION FOR THE "INTERNATIONAL ORGANIZATIONS AND PROGRAMS" ACCOUNT. THIS REQUEST WILL FUND U.S. VOLUNTARY CONTRIBUTIONS TO DEVELOPMENT, HUMANITARIAN AND SCIENTIFIC ASSISTANCE PROGRAMS

OF THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES. SINCE OUR CONTRIBUTIONS TO THIS ACCOUNT ARE VOLUNTARY RATHER THAN ASSESSED, WE HAVE ALWAYS EXERCISED A GREATER MEASURE OF CONTROL OVER THE AMOUNTS ALLOCATED TO THEM. YET THE REFORMS ACHIEVED IN THE ADMINISTRATION OF THE ASSESSED UN BUDGETS ARE NOT IRRELEVANT TO THIS DISCUSSION. THE KEY QUESTION IN BOTH AREAS IS THE SAME - HOW DO OUR EXPENDITURES PROMOTE INTERESTS AND RESULTS REFLECTING THE VALUES OF OUR PEOPLE? IF THE REFORMS ACHIEVED IN THE ASSESSED SYSTEM ARE SUCCESSFULLY IMPLEMENTED, WE WILL BE BETTER ABLE TO ANSWER THAT QUESTION THROUGHOUT THE WHOLE INTERNATIONAL ORGANIZATIONS SYSTEM. THE PRINCIPLES OF COOPERATION AND RESPONSIBILITY ENCOURAGED BY THE REFORMED PROGRAM BUDGETING PROCESS WILL WORK AGAINST ANY TENDENCY TOWARD THE EROSION OF QUALITY IN THE VOLUNTARILY FUNDED ORGANIZATIONS.

OUR IO & P REQUEST IS MARKEDLY BELOW THE AMOUNT APPROPRIATED FOR FY 1987. THE OVERALL LEVEL REFLECTS THE CONTINUING ENVIRONMENT OF BUDGETARY CONSTRAINT. NONETHELESS, IT REPRESENTS A FOUR PERCENT INCREASE OVER OUR FY 1987 REQUEST. THIS INCREASE ARISES FROM OUR SENSITIVITY TO THE PRIORITY WHICH CONGRESS ATTACHES TO THE PROGRAMS IN THIS ACCOUNT, TEMPERED BY A REALISTIC ASSESSMENT OF WHAT THEY CAN ACHIEVE.

AT A TIME WHEN THE ADMINISTRATION AND THE CONGRESS ARE BOTH MAKING EVERY EFFORT TO REDUCE THE DEFICIT, WE MUST SEEK ONLY THE MINIMUM ESSENTIAL REQUIREMENTS TO SUPPORT OUR MULTILATERAL FOREIGN POLICY OBJECTIVES. THE U.S. CONTRIBUTIONS TO THESE ORGANIZATIONS MUST BE CONSIDERED IN RELATION TO ALL OTHER CLAIMS ON THE FEDERAL BUDGET. WHEN DOMESTIC PROGRAMS ARE

SUBJECT TO SEVERE AND UNAVOIDABLE BUDGETARY STRINGENCIES. WE CANNOT ASK TO EXEMPT MULTILATERAL FOREIGN ASSISTANCE PROGRAMS.

DESPITE THIS SEVERE AUSTERITY, WE CONTINUE TO SEEK ACCOUNTABILITY AND EFFECTIVENESS IN THE PROGRAMS WHICH THIS ACCOUNT FUNDS. OUR EFFORTS HAVE YIELDED SOME SUCCESSES. ALLOW ME TO CITE A FEW EXAMPLES:

--THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA) PLAYED A REMARKABLY USEFUL ROLE DURING THE POST-CHERNOBYL NUCLEAR DISASTER;

--THE UN CHILDREN'S FUND (UNICEF) HAS WORKED WITH ALACRITY IN COST-EFFECTIVE PROGRAMS TO DECREASE MORTALITY AND MORBIDITY RATES AFFECTING THE WORLD'S CHILDREN;

--THE STREAMLINED UNIDO INVESTMENT PROMOTION SERVICE AND THE NEWLY CREATED OFFICE OF PRIVATE SECTOR AFFAIRS IN THE UN DEVELOPMENT PROGRAM (UNDP) GIVE IMPORTANT RECOGNITION TO THE ROLE OF MARKET FORCES AND PRIVATE INITIATIVE IN DEVELOPMENT.

THESE EXAMPLES HELP ILLUSTRATE THAT THE LEVEL OF U.S. INFLUENCE IS NOT SIMPLY A FUNCTION OF THE LEVEL OF OUR CONTRIBUTION. IT IS OFTEN OUR IDEAS AND EXPERTISE THAT LEAD TO CHANGE AND IMPROVEMENTS IN THE ORGANIZATIONS. IT IS U.S. POLICY TO HAVE MORE RELIANCE PLACED ON MARKET FORCES AND INDIVIDUALS WHICH ARE THE REAL ENGINES FOR DEVELOPMENT. DURING THE LAST YEAR, WE HAVE WITNESSED MOVEMENT IN THIS DIRECTION. THE UN GENERAL ASSEMBLY ADOPTED A RESOLUTION SPONSORED BY THE UNITED STATES AND A NUMBER OF DEVELOPED AND DEVELOPING COUNTRIES CALLING ON UN ASSISTANCE AGENCIES TO ENCOURAGE

ENTREPRENEURS AND FOSTER PRIVATE INITIATIVE. MORE THAN TWENTY AFRICAN COUNTRIES, DURING THE THE UN GENERAL ASSEMBLY SPECIAL SESSION ON AFRICA, OPENLY ACKNOWLEDGED PAST OVERRELIANCE ON GOVERNMENT-ADMINISTERED SYSTEMS AND MADE COMMITMENTS TOWARD A HIGHER ROLE FOR MARKET FORCES, PRIVATE INITIATIVE, AND SOUNDER POLICIES.

HAVING HIGHLIGHTED THOSE POINTS MR. CHAIRMAN, I WOULD NOW LIKE TO FOCUS ON THE INDIVIDUAL PROGRAMS WITHIN THE ACCOUNT.

THE LARGEST ITEM IN THE ACCOUNT IS A $90 MILLION REQUEST FOR THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP). ALTHOUGH THIS AMOUNT REPRESENTS A DECREASE FROM OUR FY 1987 REQUEST, OUR REQUEST FOR UNDP REMAINS THE LARGEST ITEM IN THE ACCOUNT. ONE MIGHT ASK, WHY IS THE REQUEST SO LOW WHEN A CENTRAL AND LONG-STANDING U.S. POLICY HAS BEEN TO STRENGTHEN THE UNDP AS THE PRIMARY SOURCE OF FUNDING AND OVERALL COORDINATOR FOR TECHNICAL COOPERATION ACTIVITIES CONDUCTED BY UN SYSTEM AGENCIES AND PROGRAMS? THERE IS ONLY ONE REASON FOR THE DECREASED REQUEST -- CURRENT FISCAL REALITY DEMANDS IT. THE SIZE OF THE UNDP ITEM IN THE ACCOUNT HAS MEANT THAT UNDP HAS TO BEAR THE BRUNT OF THE CUTS REQUIRED. HOWEVER, WE CONTINUE TO BELIEVE UNDP PLAYS A SIGNIFICANT ROLE IN DEVELOPING NATIONS.

THE SECOND LARGEST ITEM IN OUR REQUEST IS $30 MILLION FOR THE UN CHILDREN'S FUND (UNICEF). THIS ITEM HAS ALSO BEEN REDUCED FROM OUR FY 1987 REQUEST. AS IS THE CASE WITH UNDP, THE SIZE OF THE UNICEF ITEM IN THE ACCOUNT MEANS THAT UNICEF HAS HAD TO SHARE IN THE REQUIRED REDUCTIONS, DESPITE THE POSITIVE IMPACT OF ITS PROGRAMS.

ONE OF THE NEW ITEMS IN THE REQUEST IS THE $26.6 MILLION

FOR THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD). ALTHOUGH THE REQUESTED AMOUNT DOES NOT FULLY MEET OUR PLEDGE TO THE SECOND REPLENISHMENT, IFAD MANAGEMENT HAS INDICATED ITS WILLINGNESS TO STRETCH OUT OUR PAYMENTS IN RESPONSE TO OUR FY 1987 $10 MILLION PLEDGE TO THE IFAD SPECIAL PROGRAM FOR SUB-SAHARAN AFRICAN COUNTRIES AFFECTED BY DROUGHT AND DESERTIFICATION.

THE FOURTH LARGEST ITEM IN OUR REQUEST IS $22.3 MILLION FOR THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA). THIS REQUEST REPRESENTS A 9 PERCENT INCREASE OVER OUR FY 1987 REQUEST. THE INCREASE UNDERSCORES U.S. INTERESTS IN NUCLEAR NONPROLIFERATION WHICH ARE DIRECTLY SERVED BY THE IAEA'S WORLDWIDE SAFEGUARDS PROGRAM. OUR ASSISTANCE TO BOTH THE SAFEGUARDS AND TECHNICAL COOPERATION PROGRAMS DIRECTLY STRENGTHENS THE COMMITMENT OF DEVELOPING COUNTRIES TO OUR NONPROLIFERATION GOALS. DIRECT SUPPORT IN THE FORM OF TECHNICAL COOPERATION FOR THOSE COUNTRIES THAT ARE NPT SIGNATORIES IS FUNDED THROUGH THIS ACCOUNT.

U.S. POLICY SEEKS TO PRESERVE AND STRENGTHEN THE EFFECTIVENESS OF THE ORGANIZATION OF AMERICAN STATES (OAS) AS A FORUM FOR DEALING WITH ISSUES IMPORTANT IN THIS HEMISPHERE. OAS MEMBERS LOOK TO THE UNITED STATES FOR SUPPORT IN WHAT THEY CONSIDER TO BE THEIR PRIMARY CONCERN -- TECHNICAL ASSISTANCE FOR DEVELOPMENT. OUR REQUEST OF $14.25 MILLION REPRESENTS A TWO PERCENT INCREASE OVER OUR FY 1987 REQUEST. WE BELIEVE IT DEMONSTRATES THE CONTINUED U.S. COMMITMENT TO THE INTER-AMERICAN SYSTEM AND WILL INFLUENCE THE LEVEL OF SUPPORT WHICH THE U.S. CAN EXPECT FROM OTHER OAS MEMBERS ON ISSUES OF CONCERN TO US INCLUDING RESPECT FOR HUMAN RIGHTS, FAIR TRADE,

PRIVATE INVESTMENT, AND NARCOTICS CONTROL. IN THIS REGARD, I WOULD POINT OUT THAT THE OAS ADOPTED A MAJOR ANTI-NARCOTICS ACTION PROGRAM AT A SPECIAL CONFERENCE IN RIO DE JANEIRO LAST APRIL WHICH WAS APPROVED BY THE OAS GENERAL ASSEMBLY LAST NOVEMBER.

OUR REQUEST FOR $4.8 MILLION FOR THE UN ENVIRONMENT PROGRAM (UNEP) IS A DECREASE FROM OUR FY 1987 REQUEST. THE DECREASE, HOWEVER, DOES NOT SIGNAL DISPLEASURE WITH UNEP'S PROGRAMS SINCE UNEP'S ACTIVITIES GENERALLY CLOSELY PARALLEL U.S. INTERESTS AND COMPLEMENT EFFORTS TO IMPROVE OUR OWN ENVIRONMENT. THE REQUEST DOES, HOWEVER, REINFORCE OUR POSITION THAT OTHER DONORS MUST CONTRIBUTE A GREATER SHARE AND THAT WE WOULD LIKE TO SEE MORE AMERICANS EMPLOYED BY UNEP.

THE WORLD METEOROLOGICAL ORGANIZATION'S (WMO) VOLUNTARY COOPERATION PROGRAM (VCP) ENHANCES THE CAPACITY OF DEVELOPING COUNTRIES TO PARTICIPATE IN THE WORLD WEATHER WATCH. THE PARTICIPATION OF THE DEVELOPING COUNTRIES DIRECTLY BENEFITS THE U.S. BECAUSE IT ENABLES THE U.S. TO OBTAIN OTHERWISE UNAVAILABLE DATA THAT ARE NECESSARY FOR OUR NATIONAL WEATHER FORECASTING REQUIREMENTS. TO ASSIST IN FUNDING THIS PROGRAM, WE ARE SEEKING $2.0 MILLION FOR FY 1988.

THE REQUEST FOR $1.2 MILLION FOR INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS (ICSOC) IS RELATED TO THE U.S. WITHDRAWAL FROM UNESCO. WITH THE U.S. WITHDRAWAL, THE UNITED STATES NO LONGER CONTRIBUTES ITS SHARE OF COSTS FOR SOME SPECIFIC ACTIVITIES SUPPORTED DIRECTLY BY UNESCO WHICH SIGNIFICANTLY BENEFIT U.S. DOMESTIC INTERESTS. THE PROGRAMS PROPOSED FOR FUNDING UNDER THE RUBRIC, INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS (ICSOC), PROTECT THE

MORE IMPORTANT, DIRECT BENEFITS TO AMERICAN SCIENTIFIC, EDUCATIONAL, CULTURAL AND BUSINESS COMMUNITIES WHICH FORMERLY WERE DERIVED THROUGH U.S. MEMBERSHIP IN UNESCO. ICSOC WILL FINANCE CONTINUED U.S. PARTICIPATION IN CRITICAL UNESCO ACTIVITIES SUCH AS THE UNIVERSAL COPYRIGHT CONVENTION, THE INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION AND THE MAN AND THE BIOSPHERE PROGRAM.

THE UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF) PROVIDES SEED CAPITAL, ON A GRANT BASIS, FOR SMALL DEVELOPMENT PROJECTS REQUIRING ONLY LOW TO MODERATE TECHNOLOGY. BECAUSE OF THEIR SIZE, THESE PROJECTS MIGHT NOT ATTRACT FINANCING BY MULTILATERAL DEVELOPMENT BANKS. OUR REQUEST OF $1.0 MILLION WILL ENABLE THE FUND TO CONTINUE TO ASSIST IN PROJECTS FINANCED JOINTLY WITH BILATERAL AGENCIES AND OTHER MULTILATERAL INSTITUTIONS.

THE REQUEST FOR $250 THOUSAND FOR THE UN TRUST FUND FOR SOUTH AFRICA IS A NEW ITEM. THIS IS IN ADDITION TO OUR $800 THOUSAND REQUEST FOR THE UN EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA. TOGETHER, THEY PROVIDE TANGIBLE EVIDENCE OF A U.S. COMMITMENT TO PEACEFUL CHANGE IN SOUTHERN AFRICA AND A POSITIVE INDICATION OF OUR SUPPORT FOR THE FORCES OPPOSED TO APARTHEID.

OUR $500 THOUSAND REQUEST TO FUND THE UN INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO) INVESTMENT PROMOTION SERVICE OFFICE IN WASHINGTON, D.C. REPRESENTS A 67 PERCENT INCREASE OVER OUR FY 1987 REQUEST. WE HAVE REQUESTED THIS INCREASE BECAUSE PROMOTION OF PRIVATE SECTOR DEVELOPMENT IS A MAJOR U.S. PRIORITY BOTH IN INTERNATIONAL ORGANIZATION AFFAIRS AND IN DEVELOPMENT ASSISTANCE. UNIDO'S INVESTMENT PROMOTION SERVICE

REPRESENTS THE CLEAREST RECOGNITION WITHIN THE UN SYSTEM OF THE IMPORTANCE OF PRIVATE INVESTMENT CAPITAL IN THE DEVELOPMENT PROCESS. THE PROGRAM STIMULATES THE PRIVATE SECTOR IN DEVELOPING COUNTRIES, WHICH LEADS TO INCREASED MARKETS FOR U.S. GOODS AND SERVICES. IT ALSO DIRECTLY BENEFITS THE U.S. PRIVATE SECTOR BY ASSISTING REPRESENTATIVES FROM DEVELOPING COUNTRIES TO ESTABLISH CONTACTS IN U.S. INDUSTRY, THE FINANCIAL INSTITUTIONS, AND COMMERCIAL ASSOCIATIONS. I NOTE THAT ONLY THE UNITED STATES AMONG THE EIGHT COUNTRIES WHO HOST SIMILAR INVESTMENT PROMOTION OFFICES DOES NOT FULLY FUND THOSE ENTITIES. A CONTRIBUTION OF $500 THOUSAND TO THE WASHINGTON INVESTMENT PROMOTION OFFICE WOULD, FOR THE FIRST TIME, FULLY FUND THE CORE ACTIVITIES OF THE OFFICE. THIS WOULD PROVIDE THE UNITED STATES WITH AN UNPRECEDENTED OPPORTUNITY TO SHAPE THE FUTURE DIRECTION OF THE OFFICE.

IN 1988, THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES) WILL CONTINUE ITS ROLE AS A MAJOR CONTRIBUTOR TO INTERNATIONAL CONSERVATION AND THE PRIMARY INTERNATIONAL MECHANISM GOVERNING INTERNATIONAL TRADE IN WILDLIFE. CITES WILL CONTINUE WORK ON MAJOR PROJECTS SUCH AS THE INVESTIGATION OF LEGAL AND ILLEGAL TRADE IN KEY SPECIES. OUR REQUEST INCLUDES $200 THOUSAND FOR CITES.

WE HAVE ALSO INCLUDED A REQUEST FOR THE UN VOLUNTARY FUND FOR VICTIMS OF TORTURE. OUR CONTRIBUTION TO THE FUND IS IMPORTANT TO OUR MULTILATERAL HUMAN RIGHTS OBJECTIVES IN THE UN HUMAN RIGHTS COMMISSION AND SUPPLEMENTS U.S. BILATERAL HUMAN RIGHTS EFFORTS. A U.S. CONTRIBUTION OF $100 THOUSAND WILL HELP THE FUND EXPAND ITS OPERATIONS FROM ITS PRESENT PURELY MEDICAL AND PSYCHOLOGICAL CONCENTRATION TO INCLUDE SOME SOCIAL SERVICES TO TORTURE VICTIMS AND TO THEIR FAMILIES.

MR. CHAIRMAN THAT CONCLUDES MY STATEMENT. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU AND OTHER MEMBERS OF THE COMMITTEE MAY HAVE REGARDING THE CURRENT STATUS OF UN REFORM OR THIS REQUEST.

PREPARED STATEMENT OF RICHARD E. BISSELL
AGENCY FOR INTERNATIONAL DEVELOPMENT

The Administration is requesting $26.6 million for IFAD for FY 1988. This contribution to IFAD's second replenishment will nearly complete the U.S. pledge to the second replenishment (1985-1988). We are not requesting funding for IFAD's program for drought rehabilitation in Sub-Saharan Africa due to budgetary constraints.

As you know, IFAD is a highly specialized development institution which focuses on increasing food production in the poorer developing regions of the world. The Fund's activities are directed specifically at small farmers and the landless poor. A.I.D.'s 1985 assessment of IFAD's performance found that, in fact, IFAD's projects are unique among multilateral donors in that they begin by identifying a target group of particularly needy and disadvantaged people, assess the constraints to increased production by this group, and design projects that will provide the inputs needed for enhanced food production or income generation.

In addition, IFAD provides a vehicle for engaging the OPEC countries in a significant development effort with the traditional OECD donors.

While IFAD funds many small scale development efforts, it also

devotes attention to the policy environment which will affect its activities. If it perceives problems, it brings its expertise and credibility as a small farmer development specialist to bear to attempt to remove obstacles.

IFAD has been increasing its focus on Africa, recently funding more projects there than in any other geographic region.

Partly in response to U.S. urgings, IFAD management has been studying ways to strengthen its monitoring and evaluation operations. With a gradually maturing portfolio of projects IFAD was able to undertake 56 monitoring and evaluation missions in 1986 compared to 48 such missions in 1985. The Congress will be receiving a report shortly on IFAD's thinking and progress in this area.

In order to try to avoid a repetition of the prolonged and difficult negotiations needed to reach agreement on a second replenishment, IFAD management just initiated a new exercise in which member governments are studying IFAD's Future Financial Basis and Structure. IFAD staff and a group of international "experts" put together a voluminous report on possible options, many of which do not appear to be very practical for IFAD now, and may never be. I just returned from the first of three or four meetings to discuss these issues. It is hoped that these discussions will have reached useful conclusions by the beginning of 1988 when third replenishment negotiations are to occur.

In the first meeting I was eager to ascertain the views and parameters of other members. I made it clear that for the U.S. it is critically important to maintain the unique structure of IFAD, in particular burdensharing among categories of contributors -- i.e., OECD, OPEC, and the developing countries. At the first

meeting many other representatives emphasized the need to take account of changes in economic circumstances of various countries, including the steep decline in OPEC revenues. In this context, some of the better off LDC members indicated a willingness to consider expanding their convertible currency contributions. But the fundamental point made by all members was the positive nature of IFAD's track record, and the need to preserve its mission.

We will be consulting with you further as we get a better idea how these discussions will proceed.

PREPARED STATEMENT

Senator INOUYE. Thank you, Ambassador Walters. Before we begin the questioning I want to insert a statement submitted by Senator D'Amato.

[The statement follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, I want to thank the Honorable Vernon Walters, U.S. Permanent Representative to the United Nations, for appearing before this committee today. I also welcome Alan L. Keyes, Assistant Secretary of State, Bureau of International Organization Affairs and Richard Bissell, Assistant Administrator of AID for Policy Planning and Coordination.

As the United Nations begins its fifth decade, it has become clear that the U.N. and its charter have strayed disappointingly far from their original goals. Some of our citizens have come to believe that the U.N. has evolved into an instrument of anti-Americanism.

The U.N.'s anti-American tendencies are not its only troubling attributes. Much criticism has been directed toward the abuse of the U.N. as a base for Eastern Bloc espionage and its burgeoning operating budget.

I commend you for your support, Ambassador Walters, and that of the State Department, for the effort to trim the fat from the U.N. Reform efforts have so far resulted in commitments to reduce personnel by 15 percent, 25 percent at management levels, as well as an increased role in the budget process by the major donors. However, without legislation threatening massive reductions in U.S. contributions, I strongly believe none of these reforms would have been implemented.

I feel that we must continue to hold the U.N.'s feet to the fire. This is only the first year of the U.N.'s reform effort. It may be premature to hand out rewards yet.

The Administration once again commendably has requested substantial reductions in our voluntary contribution to the U.N.'s international programs for fiscal year 1988. In fiscal year 1985, these programs received $358.6 million, compared to only $266 million in fiscal year 1986, $237 million in fiscal year 1987. In fiscal year 1988 the request is even lower at $194 million. The Administration has been increasingly selective in funding U.N. programs. I note that there are several U.N. program accounts for which the U.S. contribution has either been reduced or eliminated.

These reductions are appropriate for more than budgetary reasons. Although the U.S. is the largest contributor to U.N. international programs, the voting record of those recipient nations is deplorable: the nations of Africa vote with U.S. interests an average

of 15.1 percent of the time; Asian nations, an average of 17 percent; and even the nations of the Western Hemisphere vote with the U.S. only 23.7 percent of the time.

Moreover, there is increasing reason for concern about the use of the United Nations as a base for espionage against the United States. Even with the decision by the Administration to reduce the size of the Soviet U.N. mission, abuse of the United Nations in this manner by the Soviets is likely to continue.

Obviously, the United Nations is neither wholly good nor wholly bad. U.S. funding decisions, however, need not be an all or nothing proposition. We should continue our course of selective funding of U.N. programs that better reflect U.S. policy objectives while exercizing fiscal influence to promote budget reforms.

I highly commend the work of Ambassador Walters. I believe that he and his predecessor, Dr. Kirkpatrick, have done much to redirect the work of the General Assembly into more realistic and meaningful work.

Again, I thank our witnessees for appearing before us today, and I thank you, Mr. Chairman, for holding this hearing.

UN ADMINISTRATIVE AND BUDGETARY REFORM

Senator INOUYE. In reading your prepared statement, I was impressed by your eloquent presentation of the fiscal and administrative reforms which were adopted by the 41st U.N. General Assembly. Your statement says, which you repeated, "The United States achieved a major success at the 41st General Assembly by gaining approval of a major program of administrative and budgetary reform."

Now that we have achieved this, will the administration seek funds to make up the shortfall in U.S. assessed contributions? As you know, these funds were withheld because of the so-called "perceived need for budgetary reform."

Ambassador WALTERS. Mr. Chairman, I certainly hope it will. I am working toward that end, at a number of meetings for that purpose going on these days, in addition to my appearance before this committee.

If I had been asked at the beginning of last year what the chances were of obtaining that reform, I would have said quite small. But thanks to a tremendous effort, we were able to get it through. We were able to obtain this acceptance of the budget process by which we avoid these continuous add-ons that people would attach to the U.N. budget in the old days.

For instance, in the time of the famine in Ethiopia, the United States provided $1 billion worth of food for the people of Africa. There were talks of building a U.N. conference center in Addis Ababa for $73 million. Now we can make sure. If we do not give our consent, the budget will not pass.

Into this budget, we have built a contingency fund, which is under a certain ceiling, so add-ons can go only so far and no further. We have a very serious commitment from the Secretary-General to reform and to economize, through the lowering of the number of senior officials reducing travel, to try to bring as many of these conferences to New York where the delegations are, and incidentally which will funnel money into the U.S. economy, rather than having expensive conferences all over the world. He is implementing new restrictions on hiring of consultants, and so forth.

I see a fairly bright perspective, and it is terribly important to us, Mr. Chairman, that we get this commitment.

Senator INOUYE. What sort of timetable do we have in making up the shortfall?

Ambassador WALTERS. I think that one of the thoughts is that we would request the funds for fiscal year 1987. I don't know what the final decision is, but what I would like to see us do is acknowledge the shortfall in 1986, and make arrangements to pay it over a period of time.

KASSEBAUM AMENDMENT

Senator INOUYE. Am I to assume from your response that the administration will now seek a modification or repeal of the so-called Kassebaum Amendment?

Ambassador WALTERS. I believe so, Mr. Chairman. I have talked to Senator Kassebaum myself, and explained this reform. She asked some questions about the consensus, how it would operate, and so forth. I sent her a letter describing how it would operate. My impression is that she is satisfied that the conditions for which she presented that amendment are now remedied or in the course of being remedied, but obviously, this is dependent upon the implementation of what was achieved.

Yes, I believe, we will, to answer your question directly, we will ask for a modification of that amendment.

IMPORTANCE OF UNDP

Senator INOUYE. I believe the Congress, and you agree on the importance of UNDP. In fact, we have looked upon the UNDP as the brain of the U.N. development program. In your statement, you have been most eloquent in supporting the UNDP. You have said that it provides effective and worthwhile assistance to the developing world, and which shows fiscal responsibility in the management of their programs.

If the UNDP is so effective and if it shows fiscal responsibility in the management of its programs—I agree with you—why has the administration proposed a 44 percent cut?

After reading your support of UNDP, I was all set to add a few dollars. Instead, I note that you are cutting 44 percent. Somewhere the speechwriter got the wrong signal about it.

Ambassador WALTERS. My statement describes UNDP's programs in great detail. There are, of course, as you know, offsets required in a tight budget year. It was necessary to provide for UNDP within an overall account for international organizations, and we had to readjust things.

I would also say, there is one other thing. Other countries are now able to pick up more of the burden. For instance, Japan has now moved into the position of being the second largest donor or contributor to the United Nations in the aid area. The United States, in fact, among the developed nations, is one of the lowest contributors to

developmental programs in the percentage per capita, although we remain the largest in absolute terms.

You have small countries, for instance, that contribute very large percentages. Of course, it is true, that with what we spend for defense, we make it possible for them to apply a great deal more of their budget to this kind of program than they would have if it were necessary for them to maintain the armed forces necessary to protect themselves if the United States were not making such a major effort.

The fact is that a number of nations are in a position to contribute more now to some of these programs than has been the case in the past. The United States has traditionally been one of the major donors to this, and we are hoping to set a good example. We urge more of the developed nations, who are spending 4 or 5 percent of their budget on defense to now make a greater contribution in this area, and some of them do.

DETERMINING ORGANIZATION BUDGETS

Senator INOUYE. In reviewing the budget request submitted by the administration that I referred to earlier, I noted UNDP is cut by 42 percent, but the World Bank is increased by 268 percent. Who in the administration decides the relative importance of these organizations?

Ambassador WALTERS. I only cover the United Nations. I don't go into the other international organizations, which really fall in the area of the activities of international organizations and Assistant Secretary Keyes, and he may wish to say something on that particular item of contribution.

Senator INOUYE. There must be someone up there who coordinates all of this. You at the U.N., someone else at the World Bank. Somebody decides that we are going to cut you 42 percent, and increase this one by 268 percent.

I am just trying to figure what rationale they must have used. It is 268 percent greater at the World Bank, but 42 percent less in your shop.

Ambassador WALTERS. All I can say, Mr. Chairman, is that U.N. bashing is fairly popular. I get several thousand postcards every month urging me to get the United States out of the U.N. or the U.N. out of the United States. These people don't realize what the U.N. contributes to the U.S. economy as well.

I am not involved in the selection of funds and the amount of the contribution to be made to other financial organizations. My mandate extends as far as the U.N. Obviously, I am not the ultimate authority on this. This has got to be seen within the framework of the overall government requests for funds and priorities.

What I am fighting for, frankly, within the administration is a higher priority for the U.N.

UNICEF

Senator INOUYE. You also spoke very eloquently of UNICEF, but here again there is a 42 percent cut. Is there any reason for that?

Ambassador WALTERS. We would think it was perhaps congressional pressure, Senator. We have been given to understand that there was only a certain amount available for all international organizations. Everything has got to be adjusted in there.

Senator INOUYE. I think otherwise. There is massive support for UNICEF here in Congress.

Ambassador WALTERS. Yes, there is.

Senator INOUYE. Do you anticipate that Congress will restore this cut?

Ambassador WALTERS. I would not want to prejudge the Congress' action on this.

Senator INOUYE. Do you wish that the Congress restore this cut?

Ambassador WALTERS. I think that one has to see it against the total amount of contributions being made by other nations, and whether it really represents a cut in the overall budget of UNICEF, which I do not think it does. I think that UNICEF would not get less money because of this cut, and there will be larger contributions from other countries.

After all, when we went to set up the Marshall Plan, the gross national product of the states that now compose the European Common Market was 6 percent that of the United States, and today it is as large as ours. So it is normal that they would take on some of this burden that we have been carrying for so long.

FUNDING FOR INTERNATIONAL ORGANIZATION PROGRAMS

Senator INOUYE. Mr. Keyes, I don't know what to make of your statement that "A 4-percent increase in funding requested for international organization programs this year over last year's request arises from our sensitivity to the priority which Congress attached to the programs in this account."

Are you trying to say that the administration has little sensitivity for the priority which Congress attaches to these programs?

Mr. KEYES. Quite to the contrary. What we are pointing out is that last year we requested somewhat less than we have this year. Insofar as there is an increase in our request levels, it is due to our sensitivity to the importance that the Congress attaches to these organizations.

We also would have to point out that the limited amount of that increase is due to the overall constraints governing the allocation of resources within the U.S. budget as a whole. We've given the decisions that are taken about priorities within that overall budget, have a figure that we must work with in dealing with the organizations in this account.

In distributing the resources available, we do our best to try to maintain U.S. leadership in these organizations, and to maintain the minimal contribution that is necessary so that our participation can be effective. The overall amount of funds going into this account, as General Walters has indicated, is not something that is determined solely by us. That has to be determined in a judgment that is made eventually in the White House about the relative priorities in the budget as a whole.

If I can add to the statement that Ambassador Walters has made, it is a very difficult process when we are working within those overall constraints. We have done our best, particularly with UNDP, to maintain the proportionate level of our contribution given the constraints in the overall number. Last year in our request the UNDP figure was 45.3 percent of the total amount, this year it is 46.4 percent.

That reflects the fact that we think in the UNDP case, in spite of the overall environment, we have reached a kind of threshold. If we fall much below the figure that we have requested here, we will no longer be able to maintain an effective leadership position within the organization.

Given the overall constraints we are operating, we didn't have much choice about the level of the figure, but we felt that we had to put a floor under UNDP. That meant, the other major organization in the account, UNICEF suffered something of a proportionate decrease in terms of our request.

As General Walters has pointed out, we are basically trying to balance a very difficult situation. The requirements of our leadership position with the facts about the organization, which in the case of UNICEF, and to some extent UNDP, mean that our drawback is being compensated for by increased contributions from other member states.

INCREASED BUDGETS IN 1984–87

Senator INOUYE. In the past 6 years, whenever we have had hearings of this nature, I have always had the same response of budgetary restraints and constraints, and when the dust settles, we find ourselves, the Congress that is, appropriating much more than what the administration requested.

For example, in 1984, your request was about $240 million, and we appropriated $354 million. In 1985, you requested $242 million, and we appropriated $358 million. In 1986, you requested $106 million, and we appropriated $366 million. In 1987, it was an $186 million request, and we responded with a $237 million appropriation.

Now you come forth with a $194 million request. Do you want us to provide $194 million, or $300 million?

Mr. KEYES. Mr. Chairman, I think that in spite of the judgments that have been made about the overall priorities within the budget, the President's request is the one that we are presenting.

I think that it is noteworthy that even Congress, in light of the overall constraints we have faced, has been trending downward in its allocations to this account precisely because competing priorities in other areas forced, to a certain extent, that choices be made within the overall budget.

This situation is in a way unfortunate, but the judgments that are made with respect to these allocations are not only taking into account the work that we want to do in the multilateral arena, but they also have to take account of the work that we are doing in bilateral foreign assistance. It is necessary to take account of the responsibility we have to the American people in terms of their domestic welfare.

Allocations for this account require that all of those judgments have to be taken into account. I am not responsible for making all those judgments, but it does seem to me that the administration officials have done their best to make those judgments responsibly and in such a way as to stay below and meet the Gramm-Rudman-Hollings targets.

Senator INOUYE. Whenever we concluded our appropriations cycle, we always met with sounds of joy and pleasure from the State Department, and we are always increasing your account. Contrary to what you have said, in each year, we have increased. We have never gone below the request that you have made.

Mr. KEYES. I didn't mean the request. As I recall the figures that you were just reading, were the actual amounts that had been appropriated. The budget environment for the country has been increasingly constrained. We have all been faced with the need to decrease our allocations. Even the Congress, when it has wanted to increase, has not been able to increase over the request level by as much as in the past.

IFAD ACCOUNT

Senator INOUYE. Last year, we didn't increase it as much as the year before because, as you know, we were concerned with one account, very much concerned with one account, IFAD. If we had added IFAD to this, it would have been just as high or higher.

What I am trying to convey to you, sir, is that we have, on the one hand, a request that it be cut, and we get words of grief; and when we add, we get words of joy. But whenever we add, we catch the hell, and you don't. Someone along the line, we had better get our signals together, because some of the Members of Congress are getting a little tired of doing some things that you want us to do rather privately, but we take the rap for it. This is all I wanted to say.

Senator DeConcini.

Senator DECONCINI. Mr. Chairman, thank you very much. I share those same feelings, Mr. Chairman.

Mr. Ambassador, Mr. Secretary, thank you for being here. I have several questions, if I could.

KGB OFFICER IN UNITED NATIONS

Mr. Ambassador, during the Daniloff and Zakharov affair, Newsweek quoted the Senate Select Committee on Intelligence as identifying Mr. Vladimir Kolesnikoff, one of the two special assistants to the Secretary General of the United Nations, as an officer of the KGB.

Do you know whether these reports are accurate, No. 1; and to what extent are other Soviets or Soviet bloc employees engaged in espionage activities inside the U.N. Secretariat; and, of course, what measures could Congress or the administration take to limit such activities?

Ambassador WALTERS. If I may make a comment as the former Deputy Director of Central Intelligence, any Soviet citizen who goes abroad is subject to cooption if they are interested in it. Whether he carries a card that makes him a member of the KGB, or the GRU, or some other intelligence collection agency, I don't think is that vital.

I would just note, I am very, very well aware of this program, and in my time at the United Nations, the Soviet Delegation has been reduced by over 100 people, and more reduction is probably coming before we reach a final agreement between them and us.

As I look at some of the major espionage cases that have been run recently, it seems that they prefer to take these spies out to Geneva, Mexico City, or Vienna, rather than try to run out of the United Nations. I don't think they find the New York environment an easy one in which to operate.

There are questions of balance in this as to how many and what the impact is on our people there, and so forth, but the great fundamental difference is that all Americans traveling abroad are not cooptable by the United States Government, and all Soviet nationals abroad are cooptable.

REDUCTION OF SOVIET DIPLOMATS AT UNITED NATIONS

Senator DECONCINI. Along the line you talked about, I believe April 1 is the deadline for the next step for the phased reduction of Soviet diplomats at the Mission of the United Nations. I want to compliment Senator Leahy, a member of this subcommittee, and Senator Cohen for their legislation addressing the problem.

The Soviets have been extremely critical of this order to reduce their personnel, the largest at the United Nations. Will they comply by our time schedules, and if not, what can we do about it?

Ambassador WALTERS. They have complied with all the previous ones up till now.

Senator DECONCINI. How many are there left now?

Ambassador WALTERS. I would think that it is about 179 now.

Senator DECONCINI. Down from what?

Ambassador WALTERS. Down from 275, Senator. It is difficult to keep track because people are moving in and out. There is a number of visa requests, and so forth. It is very difficult for me to give you an exact figure. They will comply, Senator. It may cost us in Moscow, but they will comply.

Senator DECONCINI. What is the ultimate level?

Ambassador WALTERS. I believe the ultimate level, is on the order of 150, which still leaves them with a considerably larger delegation than mine, and a larger one than the Chinese.

The Soviets do have some problems. For instance, one of the things the Soviet Ambassador said to me, "We get 2,000 calls a month with threats and bomb threats." They have three installations, on Long Island, Riverdale, and the Soviet complex in New York, and that requires guards and people to search the buildings, and so forth. They live in a world of conspiracy against them, so they are probably much more concerned about these things than most of the other embassies.

Senator DECONCINI. Is there any reason that we should not insist on parity?

Ambassador WALTERS. Parity with what, you see? We have an embassy in Moscow, and they have an embassy in Washington, and this is not foreseen. Actually, we have committed ourselves to give visas in a general way to delegates. But, it is an inherent right of every country to set a limit on the number of foreign diplomats, otherwise you can take over a small country by sending in enough diplomats.

I think that there is a fairly inherent right, and this is the point that we have made with them, of the host country to set a reasonable limit. The reduction will leave them still with a larger delegation than the United States. Granted, they have positions abroad, and they can't do the sort of things that we would. They wouldn't think of hiring foreign drivers or anything like that.

It is just their society and their culture. When you stop and look at the 1,000 years of Russian history, they haven't had 1 day of parliamentary democratic government in that 1,000 years, and it is pretty hard to fit into the kind of culture that has arisen in that environment.

Senator INOUYE. Would the Senator yield on just that point?

Senator DECONCINI. I will be glad to yield.

TOTAL SOVIETS IN UN

Senator INOUYE. You just responded to my colleague's question on the number of Russians in the U.N. Does that number include the representatives from Byelorussia SSR, and the Ukraine SSR?

Ambassador WALTERS. No. The desired total number is 170 (150 for the USSR and 10 each for Byelorussia SSR and the Ukraine SSR).

Senator INOUYE. They are not separate?

Ambassador WALTERS. They are technically separate, but in our calculations, they are included together. After all there has not been a voting discrepancy between any of them. It is rather hard for us to establish a real difference even though they appear in some sort of alphabetical list.

Senator INOUYE. It is all of them together.

Ambassador WALTERS. Yes.

Then, of course, you really get some quite interesting things. Some of the other two will say, that is not us, it is the Soviets. There are 10 or 12 of us, and you mustn't be too harsh. It is very hard to run an Embassy with only 10 people. That is true, if you have to do all of the work in that Embassy.

They were very opposed to it. They said that we didn't have the right to do it. I think that they have realized that we can, if we wish, but I think we must expect retaliation in Moscow.

There is another point that I would like to make on that. They have a lot of other nongovernmental organizations such as Aeroflot, imports and exports, and everything else, and they can distribute some of these people around in those organizations as well.

Senator DECONCINI. We have to assume that they do that, do we not?

Ambassador WALTERS. You heard my original statement that any Soviet who works abroad certainly can be subjected to pressures to cooperate, and it would be very difficult for them to resist.

STATUS OF UNRWA CONTRIBUTION

Senator DECONCINI. Mr. Ambassador, what is the status of the current contribution of the UNRWA?

Mr. KEYES. That organization actually doesn't fall under either of our purviews. It is administered by the Bureau of Refugee Programs.

Senator DECONCINI. I thought that it was a U.N. account.

Mr. KEYES. It is a U.N. organization, but it is not administered through the Bureau of International Organizations. Since it deals with refugees in Palestine, it is administered through the refugee programs.

Senator DECONCINI. Do you have anything to do with it?

Mr. KEYES. Basically, we provide a supportive role when certain questions arise with regard to personnel choices, and those sorts of things that are dealt with within the U.N. Secretariat, but the actual funding and operation of the program is not our responsibility.

UNRWA TRAINING FOR PLO

Senator DECONCINI. What about the problem that came forward, I think about 2 years ago, where there was some alleged training within UNRWA for PLO. Did you have any involvement in that?

Mr. KEYES. We shared some of the concern that was aroused at the time, particularly in Congress, about those reports. Subsequently in following up with UNRWA, it has been clear that insofar as there were such episodes, they were an aberration.

The kinds of expressions that I have heard in dealing with my Israeli counterpart, over the course of the last several years more satisfied that UNRWA is serving a useful role. It is not allowing itself to be drawn into these kinds of political exercises.

Senator DECONCINI. Do you have any oversight over UNRWA, I know that they have set up some guidelines, to see that they are followed, or is that really out of your purview?

Mr. KEYES. As I said, we are not directly responsible for the operational oversight of UNRWA. We take an interest insofar as it has an impact on the U.N. system. The personnel of UNRWA has to be chosen in consultation with the Secretary-General, we take a role there.

Senator DECONCINI. Excuse me, Mr. Secretary. You don't know then if, in fact, disciplinary measures were taken against the staff that was responsible for that incident.

Mr. KEYES. I do know that guidelines were instituted to avoid this kind of episode and we have been in touch with Mr. Dillon, and others concerning this issue.

Senator DECONCINI. You didn't make any suggestions or input to the guidelines, or the enforcement of the guidelines, or any of that, because that is outside of your bureau.

Mr. KEYES. I think that my bureau was consulted during the course of the preparation of those guidelines, but we were not responsible for their content.

CYPRUS ISSUE

Senator DECONCINI. Mr. Ambassador, can you tell us a little bit about the Cyprus issue, whether or not the United Nations and the Cypriot President's initiative is still a serious proposal on both sides?

Have the Turkish Cypriots moved their position at all?

Did you cover that in your opening statement, and if you did, can you give us a little overview on that, on what we can expect, if anything?

Ambassador WALTERS. No, I didn't touch on the question of Cyprus.

OVERVIEW ON CYPRUS FORCE

Senator DECONCINI. Could you give us a little overview on that, and what we can expect?

Ambassador WALTERS. As the Secretary wrote to Senator Stennis, the UNFICYP force in Cyprus serves an essential purpose in preserving peace and tranquility on that island, so far as there is. A breakdown in that very dangerous and very touchy balance could well take place, which would result in further suffering to the people on the island, and in a broader context could create tensions within NATO.

We would like to avoid any actions that would suggest that we are refusing our support for the U.N. effort in Cyprus.

Senator DECONCINI. What can we do, if anything, to get the large military contingency in Turkish troops to at least reduce?

Ambassador WALTERS. I would say that this would be a bilateral problem, the reduction of the Turkish forces, since Turkey, I believe, provides the largest ground forces of any country in NATO. That would have to be discussed.

Senator DECONCINI. You don't think that the United Nations could play any role in attempting to pursuade Turkey?

A little bit of knowledge is always dangerous, I know. I visited there for a little bit of time, and I was most disturbed at the number of Turkish troops that are there.

Ambassador WALTERS. It is very large. They have a much larger number than there are of Greeks. They have a larger population and, therefore, they feel they have a need for these people there. The United States, as you know, does not recognize that Turkish Republic on Cyprus.

Senator DECONCINI. I wonder if the United Nations has any influence that it can bring to bear on that problem.

Ambassador WALTERS. I think the United Nations' influence, insofar as they have any, is to stop them from fighting with one another, which is already some contribution, and to prevent further use of force.

Senator DECONCINI. Do you see the Greek Cypriots leaning toward the Cypriot President's proposal or initiative at all?

Ambassador WALTERS. I couldn't say. I must say that I have been wounded fairly recently. We had a resolution, which we introduced in the Human Rights Commission in Geneva, on Cuba, and the Greek Cypriot Government voted against us on that issue, which I was disturbed to see.

Senator DECONCINI. In your judgment, if a reduction of the Turkish troops came about, not a total withdrawal but a reduction, in your opinion, would that affect the Cypriots' position on that initiative at all?

Ambassador WALTERS. I think, if some solution, some definite solution were found, rather than just a withdrawal of the troops, such as the restoration of what existed before, a Greek President and a Turkish Vice President, it might influence the position of that government, yes.

Senator DECONCINI. I am talking about before we get that far, in your professional opinion, if the Turks were convinced to make a substantial withdrawal, not a total withdrawal but just a withdrawal of troops, do you believe that that would influence the Greek Cypriots to move forward to the President's initiative, or do you think that it doesn't make any difference how many troops are there as long as there are troops there, there isn't going to be any movement on the Greek side?

Ambassador WALTERS. I cannot be optimistic on that.

Senator DECONCINI. I think I will ask you one more question. I think that the chairman went into this, but I want to review it just a little bit.

WITHHOLDING US CONTRIBUTIONS TO UN

The Congress, at a time, encouraged withholding our contribution to the United Nations, and I know that you touched on that when I was walking in the room. This includes funds which might benefit the PLO, the Committee on Exercising the Unalienable Rights of the Palestinian People in particular, funds equal the amount which the Soviets and the United Nations Secretariat kick back to their own governments.

The Kassebaum amendment, which introduced withholding some of these, was of great significance to this Senator. What is the administration's position on the legality of withholding the assessed contribution to such international organizations?

Ambassador WALTERS. Whatever the Congress votes becomes the law in this country, and that is what we respect. I find myself, quite frankly, in a very awkward position.

The United States undertook a commitment, and I believe it was negotiated at the time when Vice President Bush was the U.N. Representative. At the outset, we paid 40 percent of the U.N. budget. It was then negotiated to 35 percent, and it was negotiated in his time to 25 percent. Last year, we withheld, for one reason or another, more than 50 percent of that contribution. I believe we paid $100 million out of a contribution, which we had agreed to pay, or a percentage we had agreed to pay of $209 million.

With regard to the Kassebaum amendment, which was to obtain budgetary and fiscal responsibility, we have attained that, I believe. As far as I know, the United States resisted the expenditure of any funds which the United Nations may contribute for the Palestine Liberation Organization.

With regard to the kickback, the Soviets argue: you pay taxes, you kick back to your government, too; you kick back for all the U.S. mem-

bers of the Secretariat, and so forth; someone pays tax for them; but you Americans who were there, you are paying taxes to your country just as the members of the Soviet delegation are paying . . .

SALARY KICKBACKS FROM SOVIET DELEGATION

Senator DECONCINI. You equate that to what was reported in the press on Soviet kickbacks. They pay taxes, too, I understand, in the Soviet Union.

Ambassador WALTERS. If the kickbacks are as large as reported, I don't think that they would have much left to pay taxes on.

Senator DECONCINI. What troubles me, Mr. Ambassador, and not dwelling on this at great length because I don't think that there is much we can do about it, but if the salaries are set in the Secretariat office, and there are Soviet people who are employed there and their salaries are $100,000, they do work for the KGB or for the Soviet government and they get the equivalent of $40,000, they take $60,000 and put it in the Soviet operations.

That is what troubles me, and I wonder if there is any way to address that administratively within the U.N., or if it is even being thought about.

Ambassador WALTERS. We have been thinking about it for a long time. The problem with this is, the only way you can ascertain this with any degree of certainty, other than the statements of defectors, is by asking them. If the Secretary General asked them, I know what they are going to say, "We don't kick back anything."

How we go about proving what they do is a fairly major undertaking, and I wouldn't quite know how to go about it. I am speaking now as a former Deputy Director of Central Intelligence. We could probably get some general idea, but there is no way that we could prove it, which is the real problem.

Just one last thought. The U.N. presence in New York, according to, I believe, the figures from New York City, funnels something like $700 million into the economy of New York City.

So even with the withdrawals, I think that it is an important economic factor in that area, and there is some return that is several times our total contribution to the U.N. itself alone, without the voluntary organizations.

Senator DECONCINI. Thank you.

Thank you, Mr. Chairman.

Senator INOUYE. Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

COMPARING UN SALARY STRUCTURE WITH CIVIL SERVICE EMPLOYEES

Ambassador Walters, I think that you have probably one of the most difficult ambassadorial positions within the State Department. Yours is highly visible, highly controversial, and you have to deal with an organization that often is very unresponsive from our viewpoint.

I would like to compliment you on the way that you have pursued these budgetary and management changes at the U.N. If our bureaucracy is sluggish, I would imagine that the U.N. is even more so. So my compliments to you on that.

I would like to make just two points about the budget, and then go on to some other questions.

When you are dealing with the U.N. and its hierarchy on change, I would like to bring to your attention this morning an article in the Washington Post by Mike Causey. For those Washingtonian people, Mike Causey is kind of the red alert system for Federal employees. He, every day, gives a little briefing on Federal employees.

It is a very interesting column comparing our civil service, its role, its pension, its payroll along with that of the U.N. It talks about the generosity of the U.N. civil service as compared to our own. I won't go into the details of that article this morning. I would really recommend it not only for your reading, but also for circulation at the U.N.

That is exactly the kind of wide gap and wide disparity that causes such tart and prickly feelings among our own civil servant staffs, some of those who are working side by side with you, and quite diligently, and they are up against the U.N. I know that we can see that in multilateral banks, and so on.

I really encourage you to read that, and the next time that they give you a hard time, just say that you have a group of Senators who are on the side of Federal employees. While we are shrinking benefits and payroll for them, we feel the same. So I would recommend the Causey article to you.

ROLE OF SURPLUS NATIONS IN UN

In addition to paying the bill, and I recognize your frustration, could you tell me the role that surplus nations are playing in absorbing more and more of the bills of the U.N.?

As I thumb through these programs that have been outlined by you and Mr. Keyes, all worthwhile, all meritorious, all of which I support, from UNICEF on, I see Belgium, that has a big gross national product, Finland, Sweden, all gallantly carrying a share. Rarely, however, with the exception of Japan, do I see the role of surplus nations.

I am wondering what role they are playing in funding this, and whether Japan is really meeting its responsibility. It turns its back on the boat-people. It turns its back on Cambodians. It turns its back on any resettlement issue. They like to say that they are essentially compensating for their small territory financially.

Could you brief the committee on that?

Ambassador WALTERS. To go back to the beginning, back to your compliments on obtaining reform, I must say that it was a large team effort. It was by no means me. It was the cooperation of the U.S. Delegation to the U.N., Alan Keyes' people, the people in the Treasury, and from all over, to bring them to understand.

For instance, you mentioned salaries, when the U.N. was founded in San Francisco, the compensation was based on U.S. civil service at that

time, and it was the highest in the world. At the time we went to reform, it was substantially higher than ours. But I must tell you that there are certain facts involved in that.

The expense for these people living in New York is absolutely astronomical. It is an enormous expenditure. However, we are getting cuts in that. We are getting cuts in the number of people in this high executive class. We are getting cuts in the compensation. Instead of, I believe, 83 assistant secretaries and under secretaries, we are going to something like 60.

Let me put it this way. Of the 50,000 U.N. employees all over the world, only about 3,000 professionals are posted in New York. But I will grant you that the so-called golden handshake is something that I would love to see enacted in the U.S. Government myself.

When people say to me, "Should we call you Ambassador or General," I say: You can call me Ambassador, because that is what I am now, but it is the Army's pension that is going to finance my old age, at least the part that is left beyond where I am now.

The 20 percent margin of difference has dropped to about 17 percent because of the 3 percent increase in U.S. Federal workers that took place in the month of January.

With regard to the contributions by other countries, there are some countries—Japan has now become, I believe, the second largest contributor overall to the United Nations. They have passed the Soviet Union. This is figured on a basis of gross national product and per capita population. Japan is now the second largest overall donor. In the case of UNICEF, they donate 7.42 percent, and in the case of UNDP, 10.9 percent.

The fact is that many of these nations are able, like some of the ones you have mentioned, Finland, Sweden, and The Netherlands, to make very large contributions, I believe I discussed this before you came in, simply because the United States picks up such a large bill, such a large part of the overall defense budget, so it leaves these countries more availabilities for the various programs.

The other thing is, many of these countries provide aid bilaterally also. We provide aid bilaterally. Some tend to provide nearly all of their aid through the United Nations, which tends to make their percentage look better.

We have a large amount, and I am sure you can confirm this, of aid that is bilateral from the United States to these countries which, if it were added to the U.N. figure, would put us in not a bad position. I believe that the total figure is something like $400 billion since the end of World War II. I know that in the Marshall Plan alone, we gave something on the order of $40 billion in 1948 dollars.

Senator MIKULSKI. Mr. Ambassador, don't misunderstand, I am not being critical of Sweden or Belgium. I think that their contributions are significant, and they are small countries, who have their own economic and social issues to deal with.

My point is that there are surplus nations in the world. Some of the small nations are doing wonderful by themselves. I will mention South Korea.

Ambassador WALTERS. South Korea is not a member of the United Nations.

Senator MIKULSKI. Then I made a mistake.

Ambassador WALTERS. We would not let them in there. They are a member of the UNDP, but not of the United Nations. We were willing to accept UN membership for both Koreas, but the Soviets were unwilling to accept membership of South Korea without concurrent membership of North Korea.

Senator MIKULSKI. If you get an inventory of surplus nations in the world, then I would like to know, for those who are members of the U.N., what are they doing to bear their fair share. We are a deficit nation, and now we are a debtor nation.

Ambassador WALTERS. I will do my best to get those detailed figures for you.

Senator MIKULSKI. To use that as a tool for the adequate funding of the U.N. I am not here to argue that, but we cannot approach the U.N. budget that we had in the 1960s economy.

Ambassador WALTERS. I agree. I will get the contributions of these developed nations for you, and I will get them probably today. I am pretty sure that I can get them, the percentages and the per capita costs of the various nations and what the total contribution is.

[The information follows:]

The rate of assessment of Member States' contributions to the United Nations regular budget for 1987 is outlined in U.N. document ST/AIM/SER.B/286 dated 11 December 1986 (copy attached, see Section III). The developed nations within this list are marked with an asterisk (*).

UNITED NATIONS

ST

Secretariat

ASSESSMENT OF MEMBER STATES' CONTRIBUTIONS TO THE UNITED NATIONS REGULAR BUDGET FOR 1987

I. BASIS OF ASSESSMENT OF MEMBER STATES' CONTRIBUTIONS TO THE UNITED NATIONS REGULAR BUDGET FOR 1987

	$US
Assessment of Member States under General Assembly resolution 41/211 C of 11 December 1986	851 502 100

II. BASIS FOR CREDITS IN RESPECT OF THE TAX EQUALIZATION FUND

	$US
Under regulation 5.2 (a) of the Financial Regulations of the United Nations, adjustments shall be made to the assessments of the Member States in respect of:	
"half of the Members' credits in the Tax Equalization Fund for the financial period estimated to be not required to meet charges for tax refunds during the calendar year, and any adjustments in the estimated credits previously taken into account."	
Staff assessment income available for credit to Members under General Assembly resolution 41/211 C of 11 December 1986 ..	126 965 358
Less:	
Estimated amount required to meet charges for tax refunds ..	31 756 867 a/
Total credits accorded to Member States, as shown in section III	95 208 491

a/ Amounts charged against the credits of the following Member States for 1987: Canada, $13,931; Turkey, $1,596; United States of America, $31,741,340.

III. CONTRIBUTIONS BY MEMBER STATES TO THE UNITED NATIONS REGULAR BUDGET FOR THE YEAR 1987

MEMBER STATES	SCALE OF ASSESSMENTS 1986-1988	GROSS CONTRIBUTIONS FOR 1987	CREDIT FROM STAFF ASSESSMENT	NET CONTRIBUTIONS
AFGHANISTAN	00.01	85 150	12 696	72 454
ALBANIA	00.01	85 150	12 696	72 454
ALGERIA	00.14	1 192 103	177 752	1 014 351
ANGOLA	00.01	85 150	12 696	72 454
ANTIGUA AND BARBUDA	00.01	85 150	12 696	72 454
ARGENTINA	00.62	5 279 314	787 186	4 492 128
* AUSTRALIA	01.66	14 134 935	2 107 625	12 027 310
* AUSTRIA	00.74	6 301 116	939 544	5 361 572
BAHAMAS	00.01	85 150	12 696	72 454
BAHRAIN	00.02	170 300	25 394	144 906
BANGLADESH	00.02	170 300	25 394	144 906
BARBADOS	00.01	85 150	12 696	72 454
* BELGIUM	01.18	10 047 725	1 498 192	8 549 533
BELIZE	00.01	85 150	12 696	72 454
BENIN	00.01	85 150	12 696	72 454
BHUTAN	00.01	85 150	12 696	72 454
BOLIVIA	00.01	85 150	12 696	72 454
BOTSWANA	00.01	85 150	12 696	72 454
BRAZIL	01.40	11 921 030	1 777 516	10 143 514
BRUNEI DARUSSALAM	00.04	340 600	50 787	289 813
BULGARIA	00.16	1 362 404	203 145	1 159 259
BURKINA FASO	00.01	85 150	12 696	72 454
BURMA	00.01	85 150	12 696	72 454
BURUNDI	00.01	85 150	12 696	72 454
BYELORUSSIAN SOVIET SOCIALIST REPUBLIC	00.34	2 895 108	431 683	2 463 425
CAMEROON	00.01	85 150	12 696	72 454
* CANADA	03.06	26 055 965	3 871 211 a/	22 184 754
CAPE VERDE	00.01	85 150	12 696	72 454
CENTRAL AFRICAN REPUBLIC	00.01	85 150	12 696	72 454
CHAD	00.01	85 150	12 696	72 454
CHILE	00.07	596 051	88 875	507 176
CHINA	00.79	6 726 867	1 003 027	5 723 840
COLOMBIA	00.13	1 106 953	165 056	941 897
COMOROS	00.01	85 150	12 696	72 454
CONGO	00.01	85 150	12 696	72 454
COSTA RICA	00.02	170 300	25 394	144 906
COTE D'IVOIRE	00.02	170 300	25 394	144 906
CUBA	00.09	766 352	114 269	652 083
CYPRUS	00.02	170 300	25 394	144 906
CZECHOSLOVAKIA	00.70	5 960 515	888 758	5 071 757
DEMOCRATIC KAMPUCHEA	00.01	85 150	12 696	72 454
DEMOCRATIC YEMEN	00.01	85 150	12 696	72 454
* DENMARK	00.72	6 130 816	914 151	5 216 665
DJIBOUTI	00.01	85 150	12 696	72 454
DOMINICA	00.01	85 150	12 696	72 454
DOMINICAN REPUBLIC	00.03	255 450	38 090	217 360
ECUADOR	00.03	255 450	38 090	217 360
EGYPT	00.07	596 051	88 875	507 176
EL SALVADOR	00.01	85 150	12 696	72 454
EQUATORIAL GUINEA	00.01	85 150	12 696	72 454

MEMBER STATES	SCALE OF ASSESSMENTS 1986-1988	GROSS CONTRIBUTIONS FOR 1987	CREDIT FROM STAFF ASSESSMENT	NET CONTRIBUTION
ETHIOPIA	00.01	85 150	12 696	72 454
FIJI	00.01	85 150	12 696	72 454
* FINLAND	00.50	4 257 511	634 827	3 622 684
* FRANCE	06.37	54 240 684	8 087 694	46 152 990
GABON	00.03	255 450	38 090	217 360
GAMBIA	00.01	85 150	12 696	72 454
GERMAN DEMOCRATIC REPUBLIC	01.33	11 324 978	1 688 640	9 636 338
* GERMANY, FEDERAL REPUBLIC OF	08.26	70 334 074	10 487 339	59 846 735
GHANA	00.01	85 150	12 696	72 454
GREECE	00.44	3 746 610	558 648	3 187 962
GRENADA	00.01	85 150	12 696	72 454
GUATEMALA	00.02	170 300	25 394	144 906
GUINEA	00.01	85 150	12 696	72 454
GUINEA-BISSAU	00.01	85 150	12 696	72 454
GUYANA	00.01	85 150	12 696	72 454
HAITI	00.01	85 150	12 696	72 454
HONDURAS	00.01	85 150	12 696	72 454
HUNGARY	00.22	1 873 305	279 324	1 593 981
* ICELAND	00.03	255 450	38 090	217 360
INDIA	00.35	2 980 258	444 379	2 535 879
INDONESIA	00.14	1 192 103	177 752	1 014 351
IRAN (ISLAMIC REPUBLIC OF)	00.63	5 364 464	799 882	4 564 582
IRAQ	00.12	1 021 803	152 359	869 444
* IRELAND	00.18	1 532 704	228 538	1 304 166
ISRAEL	00.22	1 873 305	279 324	1 593 981
* ITALY	03.79	32 271 930	4 811 988	27 459 942
JAMAICA	00.02	170 300	25 394	144 906
* JAPAN	10.84	92 302 828	13 763 045	78 539 783
JORDAN	00.01	85 150	12 696	72 454
KENYA	00.01	85 150	12 696	72 454
KUWAIT	00.29	2 469 357	368 200	2 101 157
LAO PEOPLE'S DEMOCRATIC REPUBLIC	00.01	85 150	12 696	72 454
LEBANON	00.01	85 150	12 696	72 454
LESOTHO	00.01	85 150	12 696	72 454
LIBERIA	00.01	85 150	12 696	72 454
LIBYAN ARAB JAMAHIRIYA	00.26	2 213 906	330 110	1 883 796
* LUXEMBOURG	00.05	425 752	63 482	362 270
MADAGASCAR	00.01	85 150	12 696	72 454
MALAWI	00.01	85 150	12 696	72 454
MALAYSIA	00.10	851 503	126 966	724 537
MALDIVES	00.01	85 150	12 696	72 454
MALI	00.01	85 150	12 696	72 454
MALTA	00.01	85 150	12 696	72 454
MAURITANIA	00.01	85 150	12 696	72 454
MAURITIUS	00.01	85 150	12 696	72 454
MEXICO	00.89	7 578 369	1 129 992	6 448 377
MONGOLIA	00.01	85 150	12 696	72 454
MOROCCO	00.05	425 752	63 482	362 270
MOZAMBIQUE	00.01	85 150	12 696	72 454
NEPAL	00.01	85 150	12 696	72 454

MEMBER STATES	SCALE OF ASSESSMENTS 1986-1988	GROSS CONTRIBUTIONS FOR 1987	CREDIT FROM STAFF ASSESSMENT	NET CONTRIBUTIONS
* NETHERLANDS	01.74	14 816 137	2 209 198	12 606 939
* NEW ZEALAND	00.24	2 043 606	304 717	1 738 889
NICARAGUA	00.01	85 150	12 696	72 454
NIGER	00.01	85 150	12 696	72 454
NIGERIA	00.19	1 617 855	241 235	1 376 620
* NORWAY	00.54	4 598 112	685 613	3 912 499
OMAN	00.02	170 300	25 394	144 906
PAKISTAN	00.06	510 901	76 179	434 722
PANAMA	00.02	170 300	25 394	144 906
PAPUA NEW GUINEA	00.01	85 150	12 696	72 454
PARAGUAY	00.02	170 300	25 394	144 906
PERU	00.07	596 051	88 875	507 176
PHILIPPINES	00.10	851 503	126 966	724 537
POLAND	00.64	5 449 614	812 579	4 637 035
* PORTUGAL	00.18	1 532 704	228 538	1 304 166
QATAR	00.04	340 600	50 787	289 813
ROMANIA	00.19	1 617 855	241 235	1 376 620
RWANDA	00.01	85 150	12 696	72 454
SAINT CHRISTOPHER AND NEVIS	00.01	85 150	12 696	72 454
SAINT LUCIA	00.01	85 150	12 696	72 454
SAINT VINCENT AND THE GRENADINES	00.01	85 150	12 696	72 454
SAMOA	00.01	85 150	12 696	72 454
SAO TOME AND PRINCIPE	00.01	85 150	12 696	72 454
SAUDI ARABIA	00.97	8 259 571	1 231 565	7 028 006
SENEGAL	00.01	85 150	12 696	72 454
SEYCHELLES	00.01	85 150	12 696	72 454
SIERRA LEONE	00.01	85 150	12 696	72 454
SINGAPORE	00.10	851 503	126 966	724 537
SOLOMON ISLANDS	00.01	85 150	12 696	72 454
SOMALIA	00.01	85 150	12 696	72 454
SOUTH AFRICA	00.44	3 746 610	558 648	3 187 962
* SPAIN	02.03	17 285 493	2 577 397	14 708 096
SRI LANKA	00.01	85 150	12 696	72 454
SUDAN	00.01	85 150	12 696	72 454
SURINAME	00.01	85 150	12 696	72 454
SWAZILAND	00.01	85 150	12 696	72 454
* SWEDEN	01.25	10 643 777	1 587 068	9 056 709
SYRIAN ARAB REPUBLIC	00.04	340 600	50 787	289 813
THAILAND	00.09	766 352	114 269	652 083
TOGO	00.01	85 150	12 696	72 454
TRINIDAD AND TOBAGO	00.04	340 600	50 787	289 813
TUNISIA	00.03	255 450	38 090	217 360
TURKEY	00.34	2 895 108	430 087 a/	2 465 021
UGANDA	00.01	85 150	12 696	72 454
UKRAINIAN SOVIET SOCIALIST REPUBLIC	01.28	10 899 227	1 625 157	9 274 070
UNION OF SOVIET SOCIALIST REPUBLICS	10.20	86 853 215	12 950 467	73 902 748
UNITED ARAB EMIRATES	00.18	1 532 704	228 538	1 304 166
* UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	04.86	41 383 003	6 170 517	35 212 486
UNITED REPUBLIC OF TANZANIA	00.01	85 150	12 696	72 454
* UNITED STATES OF AMERICA	25.00	212 875 525	- a/	212 875 525

MEMBER STATES	SCALE OF ASSESSMENTS 1986-1988	GROSS CONTRIBUTIONS FOR 1987	CREDIT FROM STAFF ASSESSMENT	NET CONTRIBUTIONS
URUGUAY	00.04	340 600	50 787	289 813
VANUATU	00.01	85 150	12 696	72 454
VENEZUELA	00.60	5 109 013	761 793	4 347 220
VIET NAM	00.01	85 150	12 696	72 454
YEMEN	00.01	85 150	12 696	72 454
YUGOSLAVIA	00.46	3 916 910	584 041	3 332 869
ZAIRE	00.01	85 150	12 696	72 454
ZAMBIA	00.01	85 150	12 696	72 454
ZIMBABWE	00.02	170 300	25 394	144 906
GRAND TOTAL	100.00	851 502 100	95 208 491	756 293 609

a/ Amounts charged against the credits: Canada, $13,931; Turkey, $1,596 and United States of America, $31,741,340.

FAIR SHARE

Senator MIKULSKI. Do you understand my point, Mr. Ambassador? It is called "fair share." As prosperity grows in the world, so should one's social commitment, and one's responsibility. If we were meant to fuel their economy, I think that we have now done our job, and now it is their turn to help other people.

Ambassador WALTERS. I agree. I have no quarrel with that.

KHAO I DANG REFUGEE CAMP

Senator MIKULSKI. Mr. Ambassador, I would like to know, going to something related to Khao I Dang, a refugee camp on the border of Thailand and Cambodia, and an issue that has been raised by the Thai Government called compassion fatigue, if I may.

Ambassador WALTERS. I have been to those camps.

Senator MIKULSKI. As you know, Khao I Dang is scheduled to close. I have been one of the folks who have written letters urging them not to, for the 24,000 people there that would either be resettled, or remain under the protection of the U.N. But the Thai Government and its spokespeople, through editorials in the press, raised the issue of something called "compassion fatigue." Everyone around the world ran this story, and Khao I Dang was in the headlines.

Then the headlines tended to disappear. No one was invited to appear on Nightline anymore. The resources tended to fade. The Thai Government says, "We still have these 24,000 people, and we don't want to be bad," and I think they have done an excellent job in many ways there. They say, "You want us to do something with Khao I Dang, but essentially the world has run out on us." They label it "compassion fatigue."

Could you tell me, one, what the U.N. intends to do about Khao I Dang, and how, within itself, it tends not to go or change from one fad to another and, therefore, leave some other countries in compassion fatigue?

Now, I am concerned. I know that there has been a lot of discussion about Africa, a continent in deep trouble, a continent we certainly want to help. But then after we do Africa, we may be going back someplace else 3 years from now, and whatever a new rock star visits becomes a new concern. I believe that if there are problems around the world, they should be met, and they shouldn't be met according to fads.

Mr. KEYES. In all fairness to the United Nations, one would have to say that the fact that attention is not paid by the media to certain problems, except in a faddish way, does not mean that the U.N. isn't working in those areas, except in a faddish way.

It is important to note that at the height of attention on the African famine, which peaked probably year or so ago, that has not meant an end to U.N. operation.

In fact, an on-going and sustained effort to both assess the needs and to meet those needs continues with the residual presence of the Office of Emergency Operations for Africa, as well as the work of the UNDP coordinator, and so forth.

The same thing was true, by the way, in the case of the Cambodia-Thailand border. The U.N. border relief operation which was going on there, which the United States generally supported over the course of time, was something that was initiated in a period of intense interest in those problems. It continued over several years.

This work started before I became part of our efforts with regard to the U.N., when I was in New York, it was an on-going effort, and we participated in the choice of the last ten of the operations.

In the course of the present streamlining of the Secretariat, I believe they have phased out that position as an independent operation, but it is now going to be overseen by the UNDP Resident Representative in that area. So there will continue to be an on-going U.N. effort.

The U.N. effort can only be effective insofar as it has the support and cooperation of all governments, including donor and host governments, like the Thai Government. Naturally, this requires a certain amount of skill in working out the sensitivities on all sides.

We have to take account of the fact that the countries that are basically receiving refugees, like Thailand, are extraordinarily generous both in terms of its people, its resources, and its political tolerance for these endeavors.

The U.N. has made an effort to see to it that these kinds of relationships can be maintained in a relatively effective way, given the great sensitivities, and sometimes passions, on the part of the local people to be involved in these operations.

One would have to point out that there has been an on-going effort. One of the reasons that some U.N. enterprises, in spite of its overall reputation, can be very important and effective is because the U.N. can

provide an institutional framework for that kind of sustained attention to these problems.

KHAO I DANG REFUGEE CAMP

Senator MIKULSKI. Is the U.N. providing an institutional framework for the opening and the continued maintenance of the Khao I Dang Refugee Camp and taking aggressive steps for encouraging resettlement?

Mr. KEYES. I would have to withhold a specific answer on Khao I Dang, because I am not, to be quite frank, up on the details. We will get you an answer.

I do know that with regard to the overall operation, the U.N. continues to maintain its efforts to see to it that those who are caught up in that situation are taken care of. Its overall efforts in that area, to assure the care and maintenance, and resettlement of those people is ongoing. I will get you an answer on the specific response to Khao I Dang.

[The information follows:]

MAINTENANCE OF KHAO I DANG CAMP

The current population of Khao I Dang actually comprises four groups. The first group is made up of the remainder of the original Khao I Dang population of 165,000. Since 1980 the U.S. has accepted over 130,000 from Khao I Dang. Others have been resettled in other countries, leaving roughly 14,000 in the camp. All of these have been rejected by the U.S. with most of the denials based on Section 101(a)(42) of the Immigration and Nationality Act. Some cases were denied under the first sentence of that passage, which defines a refugee, while others were denied under the second sentence as having themselves engaged in persecution (by involvement with the Khmer Rouge).

In an extraordinary action, we have conducted two formal reviews of the denied cases among the UNHCR-registered Khmer in Khao I Dang. The final result was that less than 10 percent of the cases had their original refusals overturned. In accordance with Immigration and Naturalization Service (INS) practice world-wide, INS/Bangkok will consider reviewing a denied UNHCR-registered Khmer case if new evidence is presented which warrants a review. The U.S. is also interviewing eligible applicants among the Khao I Dang "family card holders."

We are not interviewing Khao I Dang ration card holders and "illegals". The status of these two groups is considered by Thailand, and by the international community at least in the latter instance, as legally equivalent to that of the displaced Khmer at the border. Thus, these groups have not been considered for U.S. refugee processing.

Those in Khao I Dang who are not eligible to apply for refugee status or whose application has been rejected can, if eligible, be considered for a limited program of immigrant visa and humanitarian parole processing which the Department of State and INS have undertaken for Khmer on the border. Our Embassy in Bangkok has over 300 case files on Khao I Dang residents who may be eligible for this program.

Senator MIKULSKI. The U.N. High Commissioner for Refugees has won a Nobel Prize. They do say how terrific they are, and this would probably be one of the most important, and yet smallest camp, that they could handle.

Thank you, Mr. Chairman. I have other questions, but I will be happy to wait for the second round.

Senator INOUYE. Thank you.

Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

First of all, welcome, Ambassador Walters.

Ambassador WALTERS. Thank you, Senator.

REPORT ON UN VOTING PRACTICES

Senator KASTEN. Ambassador, where is the report on the U.N. voting practices which by law was to be submitted on February 1, or with the budget? It has been due now for sometime.

Mr. KEYES. Senator, the report is completed, and should be up to the Congress by the beginning of next week. I would want to point out, however, that the reason that it is coming now is that I have pushed my people as hard as I possibly could, but the preparation of those statistics has simply proven humanly impossible to get them all together faster than we have done it.

This is the fastest it has been out in the history of the report. We have improved the efficiency of coordinating that operation so that it didn't take as long to either prepare the figures or get the overall report approved as it has done in the past.

We hope that we will be able to continue that improvement, but I think we might also have to look at some legislative relief in setting a somewhat more realistic timeframe for the submission of the report. I think that it probably requires two to three weeks more than we are presently given under law for us to get the figures ready. We have done it as fast as we can.

Senator KASTEN. We worked out the process of identifying those votes with then Ambassador Jeane Kirkpatrick. Essentially, we are talking about a computer exercise matching votes and positions. I disagree with your characterization that it takes so long.

As you might recall, Mr. Ambassador, we went through the same battle last year. At that point, we put into law, and it passed this committee, a provision which would cut off the obligation or disbursement of foreign aid when reports required by law are overdue.

Secretary Whitehead and others came to this committee, saying, no, this is not right. We are going to work, we are going to try our best, et cetera, et cetera. But, here we are, not only is this report late, but the very basic 653 report is also late right now. Those are two reports which we should have.

I will be happy, if there are some technical or other kinds of problems, to work with you. But the fact is that here we are once more pushing to get basic information which the Congress, a couple of years ago, working with your people, decided was important and valuable. We want those voting statistics. We don't want them blurred and confused.

Ambassador WALTERS. I take note of what you say, Senator, and we will try to do our best on it.

Senator KASTEN. I have some general questions that I would like to just ask you. I am sorry that I wasn't able to be here for the beginning of the meeting, and if this was covered, please advise me.

REFORM RESOLUTION

On the overall U.N. budget process, I think that it is good news that the General Assembly adopted the so-called "Reform Resolution" at the end of last year, but I understand that in the new budget process, we still have not achieved the weighted voting on budgetary issues, which the amendment that was sponsored by Senator Kassebaum specifically called for.

I also understand that decisions of the revamped Committee on Program and Coordination will, in a sense, be taken by consensus. Nonetheless, the budget still has to go through the Fifth Committee of the General Assembly and the plenary of the General Assembly, before being passed. I don't have to tell you that the same countries which have greatly inflated the United Nations budget have a majority of the votes. We get back to the fact that you can get to a majority, or you can get to 78 or 80 votes, and still not get to 1 percent of the assessed budget.

My first question, then, considering that, number one, we were not able to get the weighted voting on budgetary issues, which was the congressional intent; and, number two, that we had to go through some pretty difficult forums, if previous history is right, the Fifth Committee and the Plenary of the General Assembly; what leads you to believe that the majority won't continue to pass unacceptably high budgets?

Ambassador WALTERS. We can stop it by refusing consensus. We have to agree to the budget. If we don't agree to it, there is no consensus. If the other major contributors don't agree, there is no budget. It goes back to the CPC.

I told them at the time, "If you don't get a consensus, we are going to go back to where we were," which means the congressional withholding.

Senator KASTEN. Can't the Fifth Committee or Plenary, in effect, overrule that smaller consensus?

Ambassador WALTERS. I think that it would be insanity on their part. They have been subjected to a drum fire for the last year-and-a-half on this thing.

Senator KASTEN. I agree that it would be insanity.

Ambassador WALTERS. I can't guarantee that they won't behave insanely.

Senator KASTEN. I understand that you have a veto in your opening group.

Ambassador WALTERS. Right.

Senator KASTEN. Then you go through two further steps, in which there is no rule as to what to do. Wouldn't it be a better course if Congress were to continue to hold funds until we have actually seen the so-called "reform" make it through the various hoops?

Ambassador WALTERS. In my own view, we are $100 million in arrears right now.

Weighted voting is impossible to achieve under the current Charter of the United Nations, without changing it, and that is about as hard as

changing the Constitution of the United States. I have talked to Senator Kassebaum on this, and she seemed quite satisfied with the general measure of reform that has been achieved.

Yes, there is an open problem, but I think that everybody knows what a problem the withholding of the U.S. funds was this year, and then they would run into an equal or even a worse problem in the future. While there is a lot of insanity there, I don't think that many smaller countries want to see the United Nations collapse or the United States get out of it.

I think that we just have to wait and see how it works. But I don't think that we can impose weighted voting, frankly. I don't think that it is possible without changing the Charter of the United Nations, and I see no chance of being able to do that.

COUNTRIES IN ARREARS ON CONTRIBUTIONS

Senator KASTEN. I know that we have been criticized for holding back on our contributions to the United Nations. Isn't it a fact that only 21 of the 159 U.N. member states have fully paid their dues for 1986?

Ambassador WALTERS. That is right.

Senator KASTEN. We are not unique.

Ambassador WALTERS. The Soviet Union is more in total arrears than we are, but we are getting a lot more heat for it in the media, and the American media as well. The arrears of the Soviet Union are very rarely mentioned in the stories that go out on this, and they are larger than those of the United States, but the United States has a better reputation for keeping its commitments than the Soviet Union, and I don't want to forego that reputation, quite frankly.

It is not easy to be the representative of the richest nation on earth and be told that your country is more than 50 percent in arrears. It is a very tough thing. While no one can guarantee what the Congress will do, we all said that we would make every effort we could to have the United States resume its contribution to the United Nations. But I can't guarantee what the Congress will do.

Senator KASTEN. Well, let me just make a statement, and then Alan wanted to reply to the question before this.

I have a lot of questions about giving up our leverage at this time, before we know for sure that they will not, in effect, use their voting power to utilize the funds that we release for the same wasteful purposes that they have been used in the past.

There is a question in terms of what is going on in the future, and also in terms of the arrears. I understand that in certain of these areas, you have this consensus process now, in effect, a veto.

Ambassador WALTERS. Yes.

Senator KASTEN. In other areas, particularly the Fifth Committee, it could be chaos based on previous experience.

Ambassador WALTERS. We have something now which we haven't had before: a small contingency fund has been set aside for add-ons.

There will always be some add-ons with an organization of 159 countries. Substantial cuts will be made over the next three years in staffing, and then even deeper cuts at the senior levels. Where there had been some overlapping, now we are going to get some crying and weeping that there is not enough people to get the job done.

Member states, and particularly the larger ones like us, will have a much tighter control over what is done. The Secretary-General has committed himself to a major reorganization and economy program for the Secretariat, a wide range of economies and reductions of staff travel, the use of consultants, and tighter personnel management.

If you are asking me to guarantee that everything will work exactly the way we want, I cannot do that. I can say that the chances of it happening are far, far greater than they were before. These countries know, and had it demonstrated to them that the United States is prepared to withhold funds.

If the United States withheld those funds permanently, two things would happen. The United Nations could not operate properly, and we would lose our voting right there. I don't think that they are going to go into the insanity of provoking us into doing this, provoking not just us, but the Soviet Union was with us on this.

Senator KASTEN. I understand.

Ambassador WALTERS. They too, are interested, as all of the major donor countries. The only people who really opposed reform were the very small contributors. I think that there is enough ability in the donor nations to work on these people to prevent us from going back to the old situation, because they know that it would result in the United States withholding of funds, which has wounded them, and grieved, and everything else. Some of them are crazy, but not enough, I think, to stop it.

Mr. KEYES. Senator, the implication of your question, is that in the latter two stages of this budget process in the U.N. the idea of majority rule still prevails.

We made clear, during the course of the negotiations on this subject that consensus decision-making process in the CPC was absolutely critical, and that that consensus had to be respected in the rest of the process. That it is quite clear. It was also made clear during the negotiations, when we were asked what the United States would do if we got this reform. We basically replied that we didn't know what we would do exactly if we got it, but we did know what would happen if we didn't. That pointed clearly to the kind of concern within the administration and the Congress that would, of course, continue and be aggravated.

It is clear that it is that sort of pressure that led to the results that we have achieved. To a certain degree, there has to be a sense that this situation sort of hangs over everybody and could return quite quickly if the consensus decision-making process was not respected.

The language that we will be proposing to the Congress in terms of modifying, not repealing but modifying, the Kassebaum Amendment to

take account of the circumstances, will be asking that this question of the consequences of not respecting consensus be addressed, because by doing that, we will put some teeth into this process. I think that we cannot guarantee, but we can provide some assurance that the consensus based decision-making process will be respected throughout the stages of the General Assembly's consideration.

Senator KASTEN. Mr. Chairman, thank you.

Senator INOUYE. Senator Nickles.

Senator NICKLES. Mr. Chairman, thank you very much.

SOVIET ASSESSMENT AND ARREARS AT UN

To follow up on Senator Kasten's and also Senator DeConcini's comments, our assessment per year is what?

Ambassador WALTERS. It is $209 million for the U.N. directly.

Senator NICKLES. That equals 25 percent?

Ambassador WALTERS. Yes, 25 percent.

Senator NICKLES. What is the Soviets' assessment?

Ambassador WALTERS. It is 14 percent.

Mr. KEYES. It is 11 by themselves, and 14 with the rest.

Ambassador WALTERS. With the Byelorussians, the Ukrainians, and the others.

Senator NICKLES. That would be equal to $100 million, or something like that?

Ambassador WALTERS. They also have tremendous arrears for peacekeeping.

Senator NICKLES. How much in arrears are they?

Ambassador WALTERS. They are $229 million.

SOVIET STAFF AT UN

Senator NICKLES. How many people do they have? How large is their delegation?

Ambassador WALTERS. Now it is about 179.

Senator NICKLES. Has that been reduced?

Ambassador WALTERS. It has been reduced from 275.

Senator NICKLES. There were several statements made that a great percentage of those were intelligence officials.

Ambassador WALTERS. As I explained before you came in, Senator, in my opinion, and I am speaking now as a former Deputy Director of Central Intelligence, whether they belong to these organizations or not, every Soviet citizen is subjected to enough pressure to make him cooperate. If he formally belongs to these organizations, he is probably a little more skilled, but he is also a little more likely to be traced by us.

Senator NICKLES. To follow up on what Senator DeConcini has said, I have a hard time seeing where we are not directly subsidizing that activity. Enough said on that comment.

HUMAN RIGHTS CONFERENCE IN GENEVA

You mentioned a human rights conference in Geneva.

Ambassador WALTERS. Yes.

Senator NICKLES. I met with our Ambassador in Geneva.

Ambassador WALTERS. I have just come from there. I spent several days there.

Senator NICKLES. What was the disposition of that resolution, if you know?

Ambassador WALTERS. The disposition of that resolution was a typical procedural one. We would have won, I believe, the resolution on the condemnation of human rights violations in Cuba, but Cuba advanced a procedural resolution. First of all, Cuba advanced a resolution on us covering our prosecution of the Indians, Blacks, Puerto Ricans, Hispanics, and everybody else.

Senator NICKLES. Was that voted down?

Ambassador WALTERS. It never came to a vote.

Then a third country, India, advanced a resolution suggesting that no action be taken on the two resolutions, which we lost by one vote. But as I said at the time, if we lose this, do not think that this matter is over. I will be back again and again until the conscience of the world takes cognizance of what is happening in Cuba.

As Marti, this great apostle of Cuban independence, said, a battle lost is a commitment to win another, and we will not leave the matter alone. We will combat it until something is done.

Senator NICKLES. I appreciate your comment about keeping up the battle. I was told that they were going to try to do some procedural shenanigans, and we have done that in the Senate on an occasion or two as well.

I personally am appalled at these procedural tactics, and the fact that a lot of our "allies" and a lot of "recipients" of a considerable amount of aid do not support the U.S. position at the U.N. India, for example, was instrumental in the procedural vote, and I note that they didn't vote for us on ten critical votes in the U.N. They still received $143 million in AID funds. I am bothered by that.

I am looking forward to seeing the study, Alan, that Bob Kasten alluded to. I was involved in working with Senator Kassebaum on that as well. I am very interested in seeing how many nations continue to repeatedly, some of them consistently, some of them habitually, oppose the United States on significant issues such as the Cuban human rights violations.

The day I was there, Valladares, who just did a book on his 22 years in Cuban prisons, was testifying. Even with all that, and with a great deal of pressure, and I think that our ambassador did a good job in trying to bring this to attention, they still continued to postpone it.

That is not an equal forum, and if they are going to refuse to consider those types of abuses, I, for one, will be very skeptical of fulfilling commitments, and subsidizing those types of activities.

Mr. KEYES. Could I make one comment. One would have to clarify the point that the unfairness in all of this is that when the United States has put together an effective campaign, has, the merits of the issue, won the day, then these procedural devices are resorted to prevent a vote on the substance in these fora. This is what happened in this case.

The disgraceful thing is that we had solid support from our Western Europe and developed country allies. We had good support from our moderate African friends. The thing that most pains us, I think, is that the countries in Latin America, that have been trending in the direction of democracy for themselves, refused to stand up for human rights and respect for democratic rights in Cuba.

Almost to a man, they refused to support us on this resolution, and ended up voting against us, in this key procedural vote, which prevented us from having our day in court. It is unfair to us, and it is unfair to the Cuban people, and it is unfair to the U.N. system. There is just no way that that kind of behavior brings any credit to the system.

Ambassador WALTERS. Two of those countries, Venezuela and Colombia, have been the victims of Cuban aggression. For years, Venezuela had to fight a Cuban supported insurrection in its country. The Cubans were directly connected to the M-19 Group that murdered all of those Justices of the Supreme Court in Colombia. It is absolutely appalling that these countries, which are democratic——

Senator NICKLES. Argentina voted against us?

Mr. KEYES. Argentina, Peru, Colombia, Venezuela, and Mexico were not present at the vote. They do not believe, apparently, that the people in Cuba should enjoy the same kind of freedom that they claim the people in their own country should enjoy, and I don't understand why.

Ambassador WALTERS. Let me add just one thing.

Senator NICKLES. Go ahead.

Ambassador WALTERS. They are all ready to vote a resolution on Chile, and I think they should. Chile, too, should become a democracy. Chile and Cuba have approximately the same population. There are 3,800 Chilean political refugees, and 1.4 million Cubans. If that is not a fact that should stand out to the attention of anybody, I would like to know what it is.

I am outraged at the cowardice and the withdrawal of people, their refusal to take responsibility. I can't really say that I see this as a reason. If you belong to one party in America, and the majority does something you don't like, you can't stop paying your taxes.

Senator NICKLES. Let me just make a couple of comments.

Some of us are interested in withholding some of the contributions. I visited with the Minister from Argentina, and he indicated to me they were going to vote this procedure out. It really aggravated me, because I had just been reviewing some IMF loans, in the previous hearing that was held, and they received $350 million in low interest loans for agriculture. Again, to see them vote against what I think is a vote for

democracy, and trying to clean up some of the human rights abuses in our own hemisphere, this is abominable.

Let me ask several other questions. Would you give us a list of the countries, and how they voted on this vote?

Ambassador WALTERS. With pleasure.

[The information follows:]

VOTE ON RESOLUTION ON CUBA

On the motion by the representative of India to take no action on the resolution on cuba, the vote carried by 19 in favor, 18 against with 6 abstentions. The vote, by country, was as follows:

In favor	*Against*	*Abstentions*
Algeria	Australia	Bangladesh
Argentina	Austria	Brazil
Bulgaria	Belgium	Iraq
Byelorussia SSR	Costa Rica	Pakistan
China	France	Rwanda
Colombia	Gambia	Senegal
Congo	Federal Republic of Germany	
Cyprus	Ireland	
Ethiopia	Italy	
German Democratic Republic	Japan	
India	Lesotho	
Mexico	Liberia	
Mozambique	Norway	
Nicaragua	Philippines	
Peru	Somalia	
Sri Lanka	Togo	
USSR	United Kingdom	
Venezuela	United States	
Yugoslavia		

SPAIN AND GREECE

Senator NICKLES. Let me ask you another question, just quickly. Did Spain and Greece vote against us?

Ambassador WALTERS. They are not members of the Human Rights Commission. There are only 43 members of the Human Rights Commission.

There is one overall thing that we must learn to live with, and that is the fact that there may be only 50 democracies in the United Nations.

REMOVAL OF U.S. BASES FROM SPAIN

Senator NICKLES. Let me touch on Spain just for a second. Spain, has stated repeatedly it wants the U.S. bases removed. Would you care to comment on that?

Ambassador WALTERS. I think that there are many factors involved in that. First of all, a lot of the present people think that the base agreement is the last vestige of the Franco regime.

I was just in Spain, and I spoke on television on a number of occasions in Spanish, so there wasn't any dubbing, it was direct. I said that the United States is a country that doesn't stay where it is not wanted.

These bases are not a favor to the United States. These bases are a contribution to the common defense of the West. The Germans accept 350,000 American soldiers on their soil. Belgium, Holland, Italy, all have installations with American people there in their common defense.

My final comment, which was headlined in the Spanish newspapers, was, "Americans have a habit, when they are not wanted, of leaving when they are asked to."

Senator NICKLES. I congratulate you on that comment, and I support it 100 percent.

Ambassador WALTERS. One other thing on this Cuban matter. I am particularly outraged. I went there, and I conducted something like 22 bilaterals with the representatives of those countries. I sent personal messages to the presidents of Senegal, Somalia, whom I know. I called the President of Venezuela on the phone, and about five of these people with whom, with the long wanderings of my long life, I have had occasion to meet, to appeal to them to do something.

If I speak eight languages, it is because I have a good memory, and that good memory will be applied elsewhere when projects of interest to these people come up.

Senator NICKLES. Let me echo the comments of some of us who are interested in withholding some of the funds.

I think, Mr. Chairman, when we are talking about doling out the money on this committee and others, I think that we need to remember how people vote on a lot of these very critical and very important issues.

I compliment you on the work that you have done.

INFORMATION SERVICES AT UN

One final, very quick question. Our reports are that there is a change as far as the information services at the U.N. Would this enhance or increase the Soviets' input in those information services. Would you care to comment?

Ambassador WALTERS. I would. I don't think that it will do that. I think that we are doing it for the opposite reason, quite frankly. I think that we are going to have it in a much better situation, where they will not be able to influence it in anything like the same way.

SOVIET DIRECTOR OF PUBLIC INFORMATION

Senator NICKLES. Will a Soviet named Ustinov be the new director of the Department of Public Information for the U.N.?

Mr. KEYES. If I could clarify. I think that the problem with that proposal, insofar as there is one, really is going to have to do with its implementation. The Secretariat tells us that they intend it to be a proposal that is going to consolidate research and information collection on behalf of the Secretary General out of a dispersed area, including some that I believe were subject to inordinate Soviet influence as far as we were concerned, and move it into the purview of the Secretary-General.

There are some problems with what might be the implementation of that program. It involves the U.N. centers for information as far as we can tell. At the moment, those U.N. centers of information are responsible, and I think this is what you are referring to, to an individual in DPI, who is the head of external affairs, who is a Soviet. That is, I think, a matter of concern and interest to us.

I have had some talks yesterday with an official who says that they are still thinking about the way in which this is going to be implemented. He suggested that, in fact, they might change the way that those information centers report to the Secretary-General so that that concern would be addressed.

I think, as Ambassador Walters was saying, this is not something that seems to be a problem if it is implemented directly.

Ambassador WALTERS. I will go to the Secretary-General if we find this in any way gives to the Soviets as much or increased influence. I will personally go to the Secretary-General.

Senator NICKLES. I would hope that you would. I am concerned when I read reports in the paper that you have a Soviet as the new director of this information service. They may have had an undue influence on the information services in the past. If it is going to be reformed or changed, I hope that it would be reduced, and not have all of the information funneled through that office.

Ambassador WALTERS. I can't sit still for biased reporting.

Mr. KEYES. I need to make a correction for the record. The head of DPI overall is not a Soviet, it is a Canadian lady who has just started in the job.

Senator NICKLES. Good.

Mr. KEYES. I think the concern with this information service had to do with the role that the Soviets might play in shaping the raw data and information on which these reports would be based. From our point of view, that is something about which we have concern, and have expressed concern. As Ambassador Walters said, we will be following this very closely.

Ambassador WALTERS. This ambassador is following that on a day-by-day basis.

Senator NICKLES. Mr. Chairman, thank you.

Mr. Ambassador, just one comment. I mentioned Spain, and I make those comments in ditto for Greece. Again, when we hear Papandreou, when we hear Gonzales, or whomever, continuously say, "We want the Americans out, all the money, the bases," et cetera, I think that if we call them on that bluff, we may change some opinions.

Ambassador WALTERS. To give you the voting statistics, Spain votes with us something like 75 percent of the time, and Greece votes 33 percent of the time with us. Greece is the lowest of any of the NATO allies.

Senator NICKLES. Thank you very much, Mr. Chairman.

Senator INOUYE. Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

HUMAN RIGHTS COMMITTEE IN GENEVA

I would like to follow up, Mr. Ambassador, a little bit, and then cover three other matters. First of all, I would like to discuss the current session of the U.N. Human Rights Commission in Geneva.

It is my understanding that the U.S. sponsored a resolution condemning human rights abuses in Chile. Are you aware of that resolution, and could you describe its content, and what is the status of that?

Mr. KEYES. We did not sponsor that resolution. We worked hard to try to achieve improvements in the balance of that text so that it would recognize the kind of progress that has taken place as specified in the report of the Special Rapporteur on Chile, and in light of some of the changes that we were able to achieve. A decision was taken that we should join consensus on the text with respect to Chile in order to show that we are concerned about the situation, but also because our efforts to try to make it clear that balance was needed in that resolution, it met with some success.

Senator HARKIN. How was it unbalanced before?

Mr. KEYES. There was a tendency, and there always has been in the way in which the U.N. addresses these problems, not to take account of what is being done by governments. In particular not to take account of some of the sources of violence outside of the government that have led to some of the problems there.

These, of course, do not excuse abuses of human rights in any way, but it is necessary on a factual basis to take account of these things when one is talking about the human rights situation. If you push for progress, and refuse to recognize any when it occurs, you are not going to be providing the kind of incentive for change that you need to provide.

Ambassador WALTERS. Or help the people who are moving inside Chile for change.

HUMAN RIGHTS VIOLATIONS FROM PINOCHET GOVERNMENT

Senator HARKIN. Did the resolution basically condemn some of human rights abuses by the Pinochet government?

Ambassador WALTERS. Yes.

Senator HARKIN. It did.

Mr. KEYES. Yes.

Senator HARKIN. Did we support that resolution, and what is the status of it?

Mr. KEYES. We are joining consensus on that resolution, or we will.

Senator HARKIN. So we are supporting it.

Ambassador WALTERS. Yes. You did hear the figures I gave between Chile and Cuba.

Senator HARKIN. What are your figures?

Ambassador WALTERS. Three-thousand-eight-hundred political refugees from Chile, which has eleven million people, and 1.4 million from

Cuba, and both countries have substantially the same population. Getting out of Chile is a great deal easier than getting out of Cuba.

There is today, in Chile, an opposition press, an opposition access to television, that attacks the president, (Pinochet) and so on. We have seen none of those developments in Cuba. There is a Special Rapporteur for Chile, but there is no Special Rapporteur for Cuba.

The Special Rapporteur received considerable cooperation from the Chilean Government, as I understand it, and this is one of the matters that we wished to see in the text, the fact that they had cooperated with the Special Rapporteur.

Senator HARKIN. There was one time, not too many years ago, that 10 percent of the Chilean population were in exile. Have they come back?

Ambassador WALTERS. I really can't say that I have any cognizance of any such figures.

Senator HARKIN. I am aware, Mr. Ambassador, when a similar resolution came before the U.N. General Assembly in December, the U.S. voted no along with how many who voted no on that?

Ambassador WALTERS. I believe, five.

Senator HARKIN. Five nations voted no in condemning human rights in Chile, and we were one of those.

Ambassador WALTERS. We were one of those five because the document was grossly unbalanced.

Senator HARKIN. Who were the other four?

Ambassador WALTERS. I don't recall right now.

Senator HARKIN. Do any of your staff know?

Ambassador WALTERS. I am sure that we can get it for you in a minute, Senator, but I can't get it right now.

Senator HARKIN. Was Paraguay one?

Ambassador WALTERS. I would guess that it would probably be one.

[The information follows:]

HUMAN RIGHTS IN CHILE

There were five countries who voted no on the resolution condemning human rights in Chile during the U.N. General Assembly in December 1986. Along with the United States, Indonesia, Lebanon, Paraguay and Chile were the other four countries who voted no.

REASONS FOR NO VOTE

Senator HARKIN. The U.N. voted no, and what were the reasons for voting against that resolution in December?

Mr. KEYES. Because we were not able to achieve the balance in the resolution that we thought necessary.

It is quite clear that when we get a text that is actually going to have a constructive effect, and we consult closely with those forces in Chile that are working for democracy, in order to try to assure this. When we get a text that is going to make a constructive contribution, we support that text. In fact, last year, when we could get such a text, we introduced the text.

When we get a text that is not going to make that kind of a contribution, that is instead part of the vituperative war of invective, that

arouses resentment rather than making a constructive contribution, we oppose it. We opposed that text on Chile. The aim has to be to achieve a constructive result.

Senator HARKIN. Do you know that our allies voted the other way. The French voted the other way.

Mr. KEYES. In the Human Rights Commission last year, a majority of our allies did not support us in trying to get action on the egregious human rights violations in Ethiopia. The majority of our allies doesn't always have the courage necessary to address human rights violations in the way that they should be addressed.

Ambassador WALTERS. In the Human Rights Commission of the United Nations, there is a selective sensitivity to violations of human rights. How often do we hear of Suriname as a dictatorship in Latin America, but it is.

Senator HARKIN. I would just note, for the record, that the U.S. vote in December was denounced by the Chilean democratic opposition, those who are in Chile.

It is also my further understanding that some elements of the State Department argued for a different outcome in the December vote. Is that so? Do you know of any indications from the State Department?

Ambassador WALTERS. I would say that there was discussion on both sides of the question. Some people feel that the forces that are most likely to achieve change are forces that are not necessarily controlled by the far left. If we discourage them when they do things like restore a free press, and restore access to the media, if we take no account of that, and we take no account of the Cuban-organized attempt on Pinochet's life, then we are not going to help the forces that can truly move Chile toward democracy, and that is the ultimate goal.

CUBAN DEFECTOR

Senator HARKIN. Of course, we don't want to get into why the State Department let the Cuban who jumped the plane in Ireland be returned, whose name is Pedro Soso Ortega.

Ambassador WALTERS. This is the Cuban.

Senator HARKIN. That is right, on January 21 of this year. He jumped the plane and wanted to come to this country, but he was denied and was sent back to Cuba by our own State Department.

Ambassador WALTERS. I don't know how our State Department could send him back to Cuba from Ireland.

Senator HARKIN. The Irish Department asked our State Department if we could grant him asylum, and we were so slow in getting back, it took us so much time that Ireland gave him back.

Ambassador WALTERS. I can't tell you——

Senator HARKIN. It happened.

Ambassador WALTERS. I cannot tell you that there are no mishaps.

U.N. DEVELOPMENT FUND FOR WOMEN

Senator HARKIN. I have two other issues that I want to discuss. One is on the U.N. Development Fund for Women. Women have played an integral part in development in the past in under developed countries. Yet, you are requesting zero funding for the U.N. Development Fund for Women on the part of the United States. The U.N. Development Fund has also been cut by 45 percent, from which the U.N. Development Fund for Women receives some of its funding and administrative support.

In my opinion, these programs have made significant contributions to women in developing countries and their economic development. How can we justify the elimination of this funding for women?

Mr. KEYES. Senator, I think that in the best of all possible worlds, we would want to continue some level of funding for UNIFEM, but we are not in that situation. We are in a world of constrained resources where all of us are having to make difficult choices in the ways in which we try to achieve objectives that we all share.

I was part of the delegation to the Women's Conference in Nairobi. I think that we are all deeply committed to try to make use of the institutions of the U.N. system to support the efforts to improve the situation of women around the world.

We have undertaken a strenuous effort in the Women's Commission to assure that that commission and other U.N. bodies are going to be used to assure that women's needs are addressed in on-going programs of the United Nations system across-the-board. Whether it is the U.N. Development Program, whether it is other kinds of U.N. agencies and bodies that are dealing with development issues, including those in the important area of agriculture, that they take account of the critical work of women in those areas.

We believe that by making these efforts, we will be able to assure that every dollar that goes to support development assistance is going to recognize the role of women. In the case of the Fund for Women, UNIFEM, our resources are very constrained.

The two major organizations, UNDP and UNICEF, are of great benefit to women, consume the majority of funds in this account. Every time we make a decision to add something somewhere, we have to make a decision to cut one of those major programs back a little more when we are operating within a constrained environment of resources.

We felt that in light of those kinds of choices, we just didn't have the resources this time around to give UNIFEM a separate contribution. It is a painful choice, not one that we like, but it is one that we have to make.

Senator HARKIN. In other words, it is a matter of priorities.

Mr. Keyes, I see here that you are asking for an increase, a substantial increase, for the International Atomic Energy Agency, so you make your priorities known. You have asked for an increase in the OAS Development Assistance Program, and you have made your priorities known. Here is the UNIDO Investment Promotion Service, $150,000, that is an increase there.

Senator HARKIN. Again, what you are saying is that those are more important priorities than the U.N. Development Fund for Women. That is what you are saying?

Mr. KEYES. If you look at something like the Chernobyl incident, and the kind of response that is involved, the kind of work that is being done on safety and safeguards, to try to establish a regime of safety in the nuclear area, I don't know that one can say that giving more to assure that kind of basic safety is not doing something for women and children. They are going to be harmed by those accidents if such a regime is not reinforced and strengthened.

Similarly, if one is going to be giving attention in the development area, I think we have to try to encourage the kind of approaches that are going to be of benefit to these populations, and that is why we have asked for an increase in the UNIDO Investment Promotion Office. That is the kind of approach that is actually going to contribute to the type of development that women, as well as others need. That sort of investment is a sound foundation for the development that will benefit them.

Senator HARKIN. Do you have any studies to show that the U.N. Development Fund for Women has not been effective?

Mr. KEYES. I hope that I am making it quite clear that our judgment, in this particular instance, is not a negative judgment about UNIFEM's, goals, purposes, or past. It is a judgment call given the resources we have available as to what we can support at this time and what we can't.

That is not saying the program is not good. We have had some trouble, by the way, with the administration of their budget. It hasn't been desirable any more than any U.N. program is perfect, but that is not the reason for this particular decision. The reason was that other areas of higher priority, including OAS, which encompass development and technical assistance programs that directly benefit women.

So we are not saying, short change women. We are saying that we have to look at those areas of high priorities to support the U.S. presence, programs that have a broader impact and that are going to sustain our presence in organizations that are benefitting women and children directly in the development process.

Senator HARKIN. Mr. Keyes, all I can say is that if you are getting paid on the basis of verbiage in the State Department, you must be the highest paid employee.

TECHNICAL ASSISTANCE FOR LATIN AMERICAN DEVELOPMENT

I just have one last thing that I want to say. I have said for a long time that providing technical assistance for development in Latin America should be the main focus of our efforts in Central America and Latin America.

Mr. Keyes, reading from your statement, you said that OAS members look to the United States for support in what they consider to be their primary concern, technical assistance for development. I agree with that

technical assistance, not the presence of Cuban troops in Nicaragua, is the primary concern for Latin Americans. I am glad that you recognize that.

Thank you, Mr.Chairman.

Senator INOUYE. If I may just follow up on Senator Harkin. I am well aware of Gramm-Rudman-Hollings. I am very well aware of the budgetary constraints. But the UNIFEM program is not a multi-million dollar program as far as the United States is concerned. I find it extremely difficult to believe that we are not able to raise $219,000. If we were asking for $10 million, you could say that that might put a crimp on the budget.

This committee, sitting in this room, is called upon to consider trillions of dollars, and we provide eloquent rhetoric on the importance of women, agriculture, upbringing of families and health administration. We are inclined to urge women to become entrepreneurs. Then, we say, but budgetary constraints make it impossible for us to participate with $219,000.

Mr. Harkin, I guarantee you that this committee will provide that, sir.

Senator HARKIN. Thank you.

Senator INOUYE. Thank you, Mr. Ambassador.

Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

UNIFEM

In my second round of questioning, I was going to raise the issue of the elimination of UNIFEM. I think that you and Senator Harkin have certainly made those points. I appreciate the Chair's commitment to adding $269,000 back into the budget.

I would just like to say to my colleagues in the Senate, I went to the U.N. Meeting for Women in Copenhagen. I disliked what I saw there so much about the U.N.'s behavior that I didn't bother to go to Nairobi. But the message that emerged very loud and clear is that when it comes to development money, women who are the poorest of the poor around the world, often are the greatest victims in border conflicts.

In addition to that, when the money comes in the area of development, women are usually the ones who are the most excluded. When the money comes in, it is women who cannot take advantage of the loans to do the kind of startups that the chairman has talked about. Agriculture usually means not small scale agriculture, but a conversion to so-called "high tech" agriculture, and we know only too well what that means in our own country.

We find that when U.N. dollars, or even bilateral assistance come in, that the big boys gain, small people usually do not, and usually those who are the first to be pushed out, or pushed aside are the women. So I appreciate the chairman's commitment to putting in this modest amount of money for women.

WHO CONCERN WITH AIDS ISSUE

In addition to that, I would like to raise some issues about the World Health Organization and how it works with UNICEF. First about the World Health Organization.

One of the issues we are grappling with in this country and worldwide is the epidemic of AIDS, and it is not an issue that can be dealt with only in terms of our own internal domestic efforts.

My question to you, Mr. Ambassador, is, is there an aggressive activity going on in the World Health Organization to deal with this issue of AIDS? Are they also developing the type of information that could be used by Western Europe, the United States, and others who are now facing this?

Ambassador WALTERS. I think that anything as important as AIDS has got to stimulate serious action. It is a little bit like drugs, people used to say that it is your problem, you Americans are the consumers. They have discovered that it is their problem, too. I think that this is a problem for everybody.

I hope that this kind of heat will build. You have seen the tremendous campaign in Great Britain on this subject, and there is a considerable campaign going on in this country. This could be the return of the black death.

Mr. KEYES. I think that it is clear that WHO does intend to respond to this critical situation. They have undertaken to put together a major, large-scale global program. We have been consulting closely with them, and I think that Dick Bissell will be able to tell you about the kind of consultations that have been on-going between AID and WHO to assure a level of U.S. participation that will encourage this kind of effort, which is, of course, complimentary to the sorts of things that we are doing ourselves in this area.

I think that they are gearing up to make a major response. Mr. Mahler, the head of WHO, was here, and I believe he had some opportunity to talk to some people on the Hill when he was through last month. They are taking this problem very seriously as one of the major challenges to the organization and to the health of the world.

Mr. BISSELL. Let me just add that the program is very much supported by the administration. The global plan of action put together by WHO was, in fact, organized by a person detailed from the Center for Disease Control in Atlanta named Jonathan Mann. He has organized the staff at the WHO.

Last year, we put $1 million from AID into the budget to get that global effort going, because this is clearly not an American issue, it is something that has to be dealt with by all regions. It is a European issue. It is an African issue. It is becoming an Asian and Latin American issue.

We are in the process of working with WHO to identify the kinds of resources that they will need for both this year and the following years. Their plan of action right now calls for about $37 million for their program in 1987, rising significantly in 1988 and beyond.

They have asked not only for money, but also for the technical assistance that we can provide out of CDC and AID in terms of education and communications efforts, and we are going to be providing that. The only question now is making sure that the discussions continue in consultation with the Europeans, with people from the developing countries, and with WHO.

Senator MIKULSKI. You are saying that they are developing something called a global plan of action?

Mr. BISSELL. It is done. It was developed in January, and we can certainly provide you with a copy.

Senator MIKULSKI. I would like to see that.

Mr. BISSELL. We will be happy to give it to you.

Senator MIKULSKI. Thank you.

[The information follows:]

WORLD HEALTH ORGANIZATION

PROGRAMME ON AIDS

JANUARY 1987

WHO PROGRAMME ON AIDS

I. INTRODUCTION:

The worldwide epidemic of human immunodeficiency virus (HIV) and related retroviruses* is now recognized to be an international health problem of unprecedented proportion and urgency. Numbers of reported cases of the Acquired Immunodeficiency Syndrome (AIDS) and countries reporting AIDS have increased dramatically. As of December 1982, 711 AIDS cases were reported to WHO from 16 countries; by 15 December 1986, 37,395 AIDS cases were reported from 85 countries representing all continents

AIDS Cases Reported to WHO: 15 December 1986

Continent	No. of Cases	No. of Countries
Africa	2323	17
Americas	30805	33
Asia	86	10
Europe	3795	23
Oceania	386	2
TOTAL	37395	85

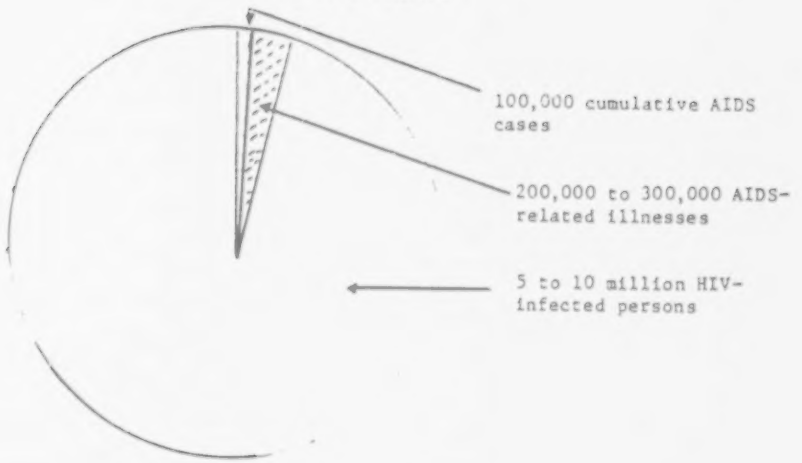
Reticence in reporting of cases from some areas, combined with under-recognition of AIDS and under-reporting to national health authorities, has meant that the number of reported AIDS cases represents only a fraction of the total cases to date; these are estimated to be in excess of 100,000. Due to the long incubation period (up to six years or longer) from HIV infection to the development of clinical disease, the number of AIDS cases provides, at best, an inaccurate and at worst, a misleadingly optimistic view of the real extent and intensity of HIV infection.

* The name "human immunodeficiency virus" has replaced the earlier names for the "AIDS virus", including "Lymphadenopathy-associated virus" and "Human T-lymphotropic virus type III". The related retroviruses include LAV-2, HTLV-4 and other recently recognized retroviruses infecting humans and which are considered related to HIV, with or without evidence of associated immunosuppression or clinical disease. In this document, "HIV" stands for all of these viruses.

FIGURE 1

HIV-INFECTED PERSONS, CASES OF AIDS AND AIDS-RELATED ILLNESS:

1986 ESTIMATES



WHO estimates that between 5 and 10 million persons or more are currently infected with HIV. In some areas of the world, 4-15 percent of healthy adults in the general population are already HIV infected; up to 60-80 percent of persons in various high risk groups are HIV-infected in some areas..

The fate of these HIV-infected persons remains unknown as scientific knowledge about the natural history of HIV infection is limited to the 5-7 year observation period that has elapsed since AIDS was first described.

Three major HIV-associated outcomes have already been distinguished:

- o AIDS
- o AIDS-related illnesses
- o HIV neurological disease

During a five year period, 10 to 30 percent of all HIV infected persons can be expected to develop AIDS. An additional 20-50 percent will develop AIDS-related illnesses. The proportion of infected persons who will develop HIV neurological disease (particularly dementia) is unknown, but an epidemic of progressive neurological disease among HIV-infected persons must be considered a realistic possibility.

(INSERT GRAPH 2)

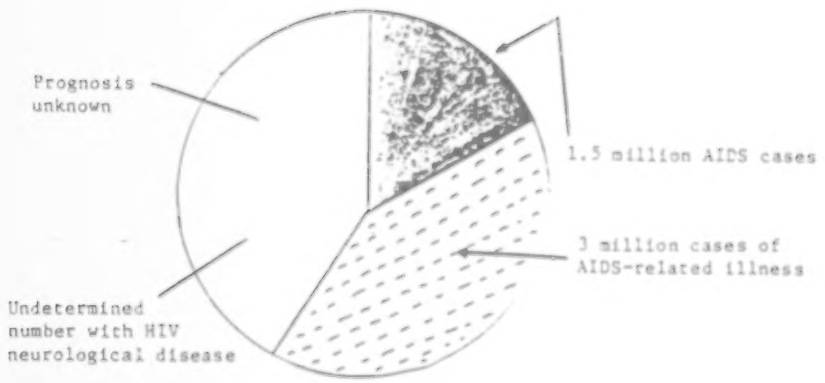
Ultimately, the large majority of infected persons may suffer a severe adverse health outcome or death associated with HIV infection.

Further spread of HIV infections is certain to occur, for several reasons.

- o Persons infected with HIV are presumed to be infected for life; most will not develop any symptoms or evidence of illness for at least several years, during which time they may transmit HIV to others.
- o HIV is spread sexually (from any infected person to his or her sexual partner), as well as through blood (transfusions, injections, skin-piercing instruments) and from mother-to-child. This combination of modes of transmission means that virtually all segments of the world's population have some degree of risk of exposure to HIV. In other words, once HIV is introduced into a population, spread is virtually inevitable.
- o HIV is already disseminated throughout the world, even though regional differences in current intensities of infection are quite important.

FIGURE 2

CASES OF AIDS, AIDS-RELATED ILLNESSES AND HIV NEUROLOGICAL DISEASE OCCURRING BY 1991 AMONG PERSONS ALREADY INFECTED BY HIV IN 1986*


Prognosis unknown
1.5 million AIDS cases
3 million cases of AIDS-related illness
Undetermined number with HIV neurological disease

* - Assuming that 7.5 million persons are HIV infected in 1986, that 20 percent will develop AIDS and 40 percent will develop AIDS-related illnesses within 5 years.

Finally, HIV may be the first of a series of retroviruses capable of infecting humans and producing immunosuppression. Recent recognition of additional pathogenic and immunosuppressive human retroviruses in West Africa and apparent identification of an AIDS-like retrovirus in South America may herald the beginning of an even larger problem than the present HIV pandemic.

The prevention of HIV transmission would be facilitated by an effective vaccine capable of preventing infection or a therapeutic agent able to reduce or eliminate the infectiousness of already infected persons. However, despite rapid advances in the early phases of vaccine development, a vaccine suitable for large-scale use is highly unlikely to become available prior to the mid-1990s. No vaccine has ever been made against a human retrovirus. Several leading retrovirologists have raised the possibility that vaccines currently under development may not be protective.

A recent clinical treatment trial among AIDS patients found that azidothymidine (AZT) prolonged life and was associated with clinical and immunological improvements. There were, however, side-effects, including bone marrow suppression; longer-term benefits and risks of AZT treatment are currently unknown. AZT may nevertheless represent the first major step towards eventual development of safe and effective therapeutic agents. It is also possible that these agents could have a role in the treatment of asymptomatic HIV-infected persons, acting both to prevent their progression to AIDS and reducing or eliminating their infectiousness. Therefore, despite impressive technical and scientific advances, it is unlikely that either a vaccine or a treatment will become available to assist in controlling the pandemic of HIV infection during the next 5 years.

The personal, social and economic costs of the HIV epidemic are enormous. Because of uncertainties regarding prognosis, along with the fears and realities of exposure and ostracism, HIV-infected but asymptomatic persons have been found to suffer higher levels of stress than AIDS patients themselves. The family structure and function is threatened both by infection and the loss of mothers and fathers. The social and economic fabric is dramatically affected by the epidemic of illness and death among productive 20-40 year olds, which is typical of AIDS epidemiology in industrialized and developing countries. The economic costs of AIDS are enormous. For example, in the United States, an estimated 1.5 billion dollars will be spent only for

drug treatment of AIDS patients in 1991, and the total cost of direct medical care is estimated to reach 16 billion dollars. The combined impact of the HIV pandemic, of AIDS, AIDS-related diseases and neurological disease upon health care, insurance and legal systems, economic and social development and indeed entire cultures and populations will be extraordinary and profound.

The depth and extent of personal and public reaction to AIDS in Europe and the United States has been considerable. However, this remarkable response has been generated by approximately 30,000 AIDS cases in the United States and 4,000 European cases. The potential societal stresses resulting from the occurrence of 270,000 AIDS cases in the United States by 1991 and 25,000 to 30,000 European AIDS cases by late 1988 may be correspondingly great. The WHO estimates of 50-100 million HIV-infected persons by 1991 will be conservative if HIV penetrates and spreads through South America and Asia.

The magnitude of the HIV pandemic, and its broad impact have been seriously underestimated and underappreciated. However, during the second half of 1986, a major shift of perspective and opinion regarding the HIV pandemic has occurred in many North American, European and African countries. In the United Kingdom, France, Italy and the United States, statements by prominent health officials and markedly increasing financial commitments for AIDS prevention programmes testify to the growing awareness of the scope of the HIV problem at national levels. In Africa, during a meeting on AIDS at the WHO Regional Office in Brazzaville in November 1986, representatives from 37 countries agreed that action to control the epidemic of AIDS in Africa had to be given the highest priority. The Director-General of the World Health Organization recently announced that in the same spirit and with the same dedication to global purpose that WHO engaged in smallpox eradication, WHO is now committed to the more urgent, more difficult and more complex challenge of global AIDS control.

In summary, the HIV epidemic is global. It involves both the industrialized and developing countries. It constitutes an urgent and unprecedented threat to global health. We are at an historic moment, at the beginnings of a global epidemic whose ultimate magnitude cannot be predicted. It is clear that action taken now will have greater impact than actions taken later. A series of immediate priority actions, along with the development of a long-term strategy, are urgently needed.

... AIDS PROGRAMME ACTIVITIES TO DATE

WHO has been involved with AIDS since 1983. In May 1986, the Thirty-ninth World Health Assembly approved the creation of a Control Programme on AIDS (CPA). The resolution requests the Director-General (WHA39.29) to:

- o cooperate with Member States in assessing the problem of HIV infection and implementing national and collective programmes for the prevention and control of AIDS;
- o explore ways and means of increasing the extent and types of WHO's cooperation with Member States in combatting this infection; to seek, for that purpose, the necessary extrabudgetary resources and, subject to the present constraints, to continue to provide support from the Organization's regular budget for the prevention and control of this public health problem beyond 1987.

A report of CPA activities has been prepared for the Executive Board of WHO (EB79/12) (Annex I). Highlights of CPA activity include:

1. Enhanced exchange of information to Member States, Regional Offices, and to the general public;
2. Meeting and report on educational strategies for prevention and control of AIDS (June, 1986);
3. Initial arrangements for global reference serum bank;
4. Active collaboration with test kit manufacturers to stimulate development of new test methods adapted to the developing world;

5. Preparations for WHO coordinated bank for HIV and related retroviruses;

6. First meeting on long-term planning and preparations for efficacy field trials of a future vaccine (December 1986);

7. Commitments of over 7 million dollars from 7 countries for extra-budgetary support of CPA;

8. Regional Meeting on AIDS in Brazzaville, involving representatives from 37 African countries (November 1986);

9. Specific requests for technical collaboration and assistance from over 20 African countries.

10. Laboratory training workshops in Africa (1 Anglophone, 1 Francophone), Southeast Asia, South America.

In late November 1986, the Director-General placed CPA under his direct supervision and announced that the WHO Special Programme on AIDS would be expanded and enhanced to become the vehicle for WHO's critical role in global AIDS control.

III. WHO SPECIAL PROGRAMME ON AIDS

The primary objective of the global programme is to prevent HIV transmission. The secondary objective is to reduce morbidity and mortality associated with HIV infection.

The global programme will require two complementary activities:

- o establishment of international leadership, coordination and cooperation
- o development of strong national AIDS prevention and control programmes

The World Health Organization is a recognized international leader in public health, can assure international coordination and cooperation, and has established mechanisms for collaborating with Member States in the design, development, implementation and evaluation of national programmes. In this unprecedented effort, WHO will draw particularly on its experience in global mobilization and coordination (smallpox eradication), research management (HRP, CDD, TDR) and its strong relationships with Member States.

The WHO Programme on AIDS is described in the remainder of this document, according to the following plan:

A. Programme strategies and activities for 1987-89
B. Organizational structure and functions
C. Operational plan and performance indicators for 1987
D. Personnel and fiscal requirements for 1987

A. PROGRAMME STRATEGIES AND ACTIVITIES FOR 1987-89

Nine strategies and associated activities for 1987-89 provide distinct and complementary ways to advance the Programme's objectives of preventing HIV transmission and reducing morbidity and mortality associated with HIV infection. These strategies include:

1. prevention of sexual transmission
2. prevention of transmission through blood transfusion
3. prevention of transmission through blood products
4. prevention of transmission through injections and skin-piercing instruments

5. prevention of transmission through organ and semen donation
6. prevention of perinatal transmission
7. prevention of transmission from HIV-infected persons through use of therapeutic agents
8. prevention of HIV infection through the development and delivery of vaccines
9. reduction of impact of HIV infection on individuals, groups and society

1. PREVENT SEXUAL TRANSMISSION OF HIV

a. WHO STRATEGY: Collaborate with Member States to develop and strengthen health promotion approaches leading to sustained changes in sexual behaviour.

b. WHO ACTIVITIES (1987-89):

1. Review current state of knowledge of risk factors related to sexual transmission to help define behavioural, operational and communication research issues.
2. Stimulate, support and coordinate studies to determine risk factors for sexual transmission of HIV.
3. Design and distribute generic models, prototype materials and guidelines for communication, education and community action programmes.
4. Promote and support country-specific epidemiological, behavioural and audience research studies needed to develop communication, education and community action plans.
5. Provide technical consultation and financial support to design, develop, implement and maintain communication, education and community action programmes for the general public, risk groups and other specific persons and groups.
6. Promote and support complementary plans with non-governmental organizations and the private sector.
7. Promote, coordinate and support the development, improvement and delivery of specific technologies (e.g., condoms and viricidal agents).
8. Develop, coordinate and support the monitoring, evaluation, and active exchange of communication, education and research strategies, models and prototype materials.
9. Design, develop and assist in the implementation of monitoring and evaluation systems at the country level.

2. PREVENT HIV TRANSMISSION THROUGH BLOOD TRANSFUSION

a. WHO STRATEGY: Collaborate with Member States to develop and strengthen (a) blood transfusion systems to ensure appropriate collection, screening and use of blood; and (b) counselling and medical evaluation services (pre- and post-donation).

b. WHO ACTIVITIES (1987-89):

1. Develop and strengthen blood transfusion systems to ensure appropriate collection, screening and use of blood.
   a. develop generic guidelines and training materials.
   b. survey national and institutional blood collection and transfusion systems.
   c. develop and implement protocols to evaluate the need for HIV screening at institutional and national levels.
   d. stimulate, coordinate and support the development, improvement and delivery of HIV laboratory screening techniques.
   e. provide technical consultation to design, develop, strengthen and maintain blood transfusion systems and associated HIV screening.
   f. Coordinate and support the provision of required

equipment, supplies, training and recurrent costs for blood transfusion systems and associated HIV screening.
g. Coordinate and support operational research to delineate key logistic and cost issues.
h. Develop model monitoring and evaluation systems.

2. Develop and strengthen counselling and medical evaluation services (pre- and post-donation)
   a. Assist in the design, implementation and evaluation of donor deferral and pre-donation identification and counseling methods.
   b. Develop guidelines and prototype materials for medical evaluation and counselling of seropositive donors.

3. PREVENT HIV TRANSMISSION THROUGH BLOOD PRODUCTS

a. WHO STRATEGY: Collaborate with Member States to ensure that blood products are produced in a manner which eliminates the risk of HIV transmission.

b. WHO ACTIVITIES (1987-89):
   1. Develop uniform scientific criteria and establish WHO standards for heat inactivation, chemical treatments and serological testing of blood products.
   2. Develop guidelines to assist producing countries in ensuring that the blood used for the preparation of plasma derivatives is free of serological markers of HIV.
   3. Review manufacturing protocols to assess conformity with WHO standards and provide guidance to importing countries.

4. PREVENT HIV TRANSMISSION THROUGH INJECTIONS AND USE OF OTHER SKIN-PIERCING INSTRUMENTS

a. WHO STRATEGY: Collaborate with Member States to ensure the use of sterile needles, syringes and other skin-piercing instruments.

b. WHO ACTIVITIES (1987-89):
   1. Stimulate, support and coordinate epidemiological studies to identify and quantify risk factors for HIV transmission among IV drug users and persons exposed through injections or other use of skin-piercing instruments.
   2. Conduct surveys of injection and other skin-piercing practices in medical and other settings.
   3. Stimulate, support and coordinate operational and behavioural research for programmes designed to limit unnecessary injections and promote use of sterile techniques for immunizations, injections and other use of skin-piercing instruments.
   4. Develop generic guidelines and materials to assist countries in identifying and educating groups at risk of HIV exposure through injections and other use of skin-piercing instruments.
   5. Develop generic guidelines and training materials directed to practitioners and others using needles and skin-piercing instruments.
   6. Provide technical consultation and financial support for programmes designed to limit unnecessary injections and ensure sterile techniques for immunizations, injections and other use of skin-piercing instruments.
   7. Design, develop and assist in the implementation of monitoring and evaluation systems.

5. PREVENT HIV TRANSMISSION THROUGH ORGAN AND SEMEN DONATION

a. WHO STRATEGY: Collaborate with Member States regarding the development and implementation of practices and policies to prevent HIV transmission through organ and semen donation.

b. WHO ACTIVITIES (1987-89):
   1. Develop guidelines for organ and semen donation.
   2. Monitor the occurrence of HIV infections associated with organ or semen donation.

6. PREVENT PERINATAL TRANSMISSION OF HIV

a. WHO STRATEGY: Collaborate with Member States in the development, implementation and evaluation of interventions to reduce perinatal HIV transmission.

b. WHO ACTIVITIES (1987-89):
   1. Stimulate, support and coordinate research to identify and quantify risk factors for and efficiency of perinatal transmission and to describe the natural history of maternal and fetal/infant infection.
   2. Develop consensus on current knowledge and research priorities and support behavioural and operational research relevant to strategies for prevention of perinatal transmission.
   3. Develop generic guidelines and prototype materials for communication, education and other approaches to the identification and counselling of HIV-infected women of childbearing age.
   4. Provide technical consultation and financial support to design, develop, strengthen and maintain systems to reduce perinatal transmission.
   5. Design, develop and assist in the implementation of monitoring and evaluation systems.

7. PREVENT TRANSMISSION FROM HIV-INFECTED PERSONS THROUGH USE OF THERAPEUTIC AGENTS

a. WHO STRATEGY: Collaborate with institutions and Member States to develop, test, produce and deliver therapeutic agents.

b. WHO ACTIVITIES (1987-89):
   1. Facilitate development of therapeutic agents by stimulating, supporting and coordinating meetings, research, exchange of information and other activities to identify and address scientific and technical issues.
   2. Establish, coordinate and support mechanisms to promote international scientific collaboration and social and ethical acceptability in the design, implementation, monitoring and analysis of field trials.
   3. Establish recommendations for the production and control of priority therapeutic agents.
   4. Develop feasible approaches to the delivery of therapeutic agents.

8. PREVENT HIV INFECTION THROUGH THE DEVELOPMENT AND DELIVERY OF VACCINES

a. WHO STRATEGY: Collaborate with institutions and Member States to develop, test, produce and deliver vaccines.

b. WHO ACTIVITIES (1987-89):
   1. Develop WHO-coordinated international bank for HIV and related retroviruses, serum, and related reagents.
   2. Facilitate development of vaccine by stimulating, supporting and coordinating research, meetings, exchange of information and

other activities to identify and address scientific and technical issues.
3. Establish, coordinate and support mechanisms to ensure international scientific collaboration and social and ethical acceptability in the design, implementation, monitoring and analysis of vaccine trials in humans.
4. Establish recommendations for the production of and standards for vaccines.
5. Develop feasible approaches to the delivery of vaccines.

9. REDUCE IMPACT OF HIV INFECTION ON INDIVIDUALS, GROUPS AND SOCIETY

a. WHO STRATEGY: Collaborate with Member States to develop and implement policies and practices to reduce the impact of HIV infection on individuals, groups and society.

b. WHO ACTIVITIES (1987-89):
1. Develop generic strategies and prototype materials for counselling of HIV-infected persons and their sexual partners, families and other relevant groups (e.g., schools, workplace).
2. Promote, coordinate and support research related to implementation and evaluation of counselling strategies.
3. Provide technical consultation and financial support for the development and strengthening of programmes for medical management of, and psychosocial assistance to, HIV-infected persons.
4. Promote, coordinate and support research on cofactors for expression of HIV disease.

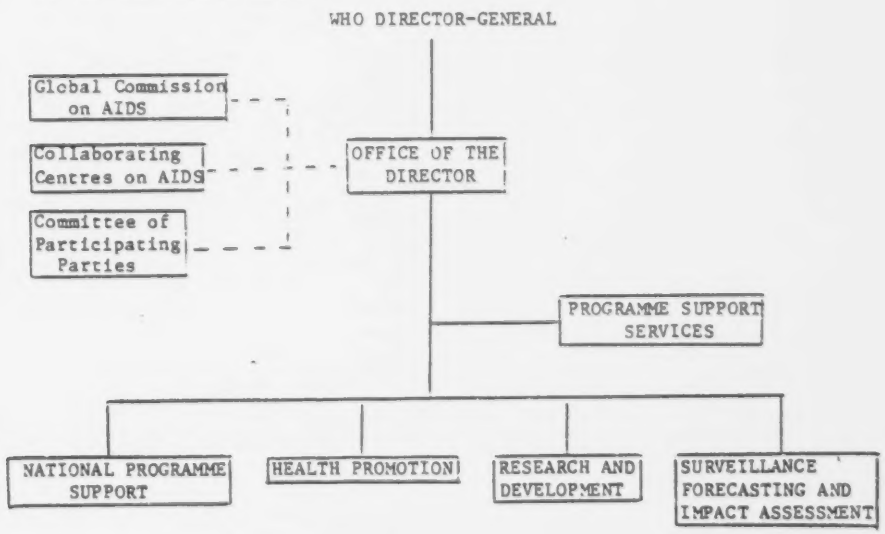
B. ORGANIZATIONAL STRUCTURE AND FUNCTIONS

The Special Programme on AIDS is attached directly to the Office of the Director-General. The Programme has five major units:

- o National Programme Support
- o Health Promotion
- o Research and Development
- o Surveillance, Forecasting and Impact Assessment
- o Programme Support Services

In addition, the Global Commission on AIDS, the Network of Collaborating Centres and the Committee of Participating Parties provide the Programme with additional review, support and guidance.

1. ORGANIZATIONAL CHART



2. ORGANIZATIONAL FUNCTIONS

A. NATIONAL PROGRAMME SUPPORT

1. FOCUS: To provide technical and financial support to Member States in the planning, design, implementation, strengthening, monitoring and evaluation of all components of National AIDS Programmes.

2. FUNCTIONS:

a. Develop generic guidelines for, and assist in the development of, national AIDS programme plans

b. Provide technical, financial and operational support to develop, strengthen and maintain:

1. national AIDS committees, task forces and other planning and coordinating bodies and mechanisms;
2. national epidemiological assessment and surveillance of AIDS;
3. national assessment of human and technical resources currently and potentially available to the AIDS programme;
4. laboratory diagnostic capabilities, including equipment, supplies, training and meeting of recurrent costs;
5. education and training of health workers at all levels;
6. programmes for counselling of HIV-infected persons;
7. programmes for medical management and psychosocial assistance to HIV-infected persons;
8. targeted communication and education interventions for risk groups and the general public;
9. national systems for procurement and distribution of technologies to prevent HIV transmission;
10. blood screening, collection and transfusion systems;
11. evaluation of blood donor referral mechanisms and appropriate donor counselling techniques;
12. systems to ensure appropriate use of injection equipment and other skin-piercing instruments, including educational strategies directed towards practitioners, high risk groups and the general public;
13. monitoring, training supervision and counselling mechanisms for reduction of perinatal HIV transmission;
14. monitoring and evaluation systems for tracking progress of prevention and control activities and information exchange systems on those activities.

B. HEALTH PROMOTION

1. FOCUS: To develop, promote and assist in the design, implementation, monitoring, and evaluation of health promotion interventions which utilize behavioural change strategies and communication techniques.

2. FUNCTIONS:

a. establish guidelines for health promotion interventions at global, regional and national levels.

b. design, develop, support and coordinate targeted communication, social science and audience research.

c. design, field test and refine generic models of communication and education systems, strategies, methods and materials.

d. design, field test and refine modifications to assure consumer adoption of technologies to prevent HIV transmission, including condoms and viricidal agents.

e. design and implement global communication and education strategies and materials.

f. design and conduct in-service training for global programme staff in communication and education strategies and processes.

g. assist national programmes in establishing communication interventions.

h. monitor and evaluate the effectiveness of on-going behaviour change, communication and education activities; and revise strategies, methods and materials accordingly.

i. identify and coordinate experts relevant to communications strategies including experts in social sciences, social marketing, health education and advertising.

j. develop, coordinate and support the monitoring, evaluation, and active exchange of communication, education and research strategies, models and prototype materials.

C. RESEARCH AND DEVELOPMENT

1. FOCUS: To coordinate, promote and support biomedical, epidemiological, social, behavioural and operational research and development.

2. FUNCTIONS:

a. establish, support and coordinate mechanisms that will ensure international scientific collaboration and social and ethical acceptability in the design, implementation, monitoring and analysis of:
   1. vaccine trials in humans
   2. therapeutic agent field trials

b. stimulate, support and coordinate research to:
   1. determine the nature, extent, risk factors and efficiency of all modes of HIV transmission.
   2. describe the natural history of HIV infection, especially among mothers, infants and children.
   3. develop and assess case definitions for AIDS and HIV-associated conditions.
   4. develop and evaluate counselling strategies.
   5. determine cofactors for expression of HIV disease.

c. assess, stimulate, coordinate and/or support the development and improvement of:
   1. HIV laboratory screening techniques
   2. technologies, including condoms, viricidal agents, and single-use syringes, designed to prevent HIV transmission

d. assess the current state-of-knowledge and support new social, behavioural and operational research relevant to:
   1. all risk factors and their relative importance in HIV transmission.
   2. sexual transmission of HIV and the development of appropriate health promotion and prodaucr strategies.
   3. blood collection, screening and transfusions systems
   4. injection and other skin-piercing practices in medical and non-medical settings
   5. health-care and behavioural practices related to perinatal HIV transmission
   6. counselling strategies and programmes.

e. develop a WHO-coordinated bank for HIV and related retroviruses, serum, and related reagents

f. develop recommendations for the production of, and standards for, vaccines and priority therapeutic agents

g. develop scientific criteria and standards for heat inactivation, chemical treatment, and serological testing of blood products

h. review manufacturing protocols for blood products according to WHO standards, and provide guidance to importing countries

D. SURVEILLANCE, FORECASTING, AND IMPACT ASSESSMENT

1. FOCUS: To promote, support and coordinate the data collection and analysis designed to describe current and future HIV infection trends, their social, economic and demographic impacts, and implications for interventions.

2. FUNCTIONS:

a. maintain a global epidemiological surveillance system for HIV infection and associated morbidity and mortality.

b. stimulate, coordinate and support the design, implementation and analysis of surveys and other studies of the social, economic and demographic impact of HIV infection.

c. stimulate, coordinate and support development and use of mathematical models for prediction of spread of HIV infection, and associated social, economic and demographic impact.

d. incorporate model-derived information to evaluate and refine strategies for limiting spread and impact of HIV infection.

E. PROGRAMME SUPPORT SERVICES

1. FOCUS: To provide technical services as well as administrative and programmatic support to the Programme.

2. FUNCTIONS:

a. develop generic guidelines, for national adaptation, on the prevention and control of HIV infection.

b. develop, coordinate and implement the active exchange of targeted technical information with Member States, donor agencies, collaborating centres, other organizations, and selected target groups

c. prepare information articles for publication and general dissemination, prepare press statements, and respond to public inquiries.

d. prepare routine and special reports to meet the requirements of the Organization, donor agencies and other institutions.

e. establish and maintain administrative linkages and arrangements with donor agencies, international organizations, and NGOs.

f. provide editorial and graphic services in the preparation of organizational documents, scientific papers and reports.

g. provide administrative support in management, contractual, financial, logistical and informatic activities.

h. provide support in the organization of technical and management meetings.

i. provide administrative support to the Global Commission on AIDS, the Committee of Participating Parties, the Network of Collaborating Centres and special working groups and committees.

F. GLOBAL COMMISSION ON AIDS

1. Proposed Terms of Reference:

a. to review and evaluate, from a scientific, technical and operational standpoint, the content and scope of the Programme.

b. to advise WHO regarding short, medium and long term priorities in the research and operational components of the Programme.

2. Proposed Composition:

a. Total of 15-20 members
b. To include representative(s) from:
1. social science (e.g., sociology, anthropology)
2. epidemiology
3. public health education and communication
4. biomedical science
5. operational research
6. economics
7. demography
8. biostatistics
9. social and economic development
10. administration and management

G. COMMITTEE OF PARTICIPATING PARTIES

1. Proposed Terms of Reference:
a. to assist the Director-General by:

1. reviewing the progress, plans and budgetary projections of the Programme.

2. reviewing other aspects of the Programme, as desired, including ways in which its activities can be coordinated with other organizations and activities.

3. recommending the necessary approaches required to assure continued extrabudgetary support for the Programme, taking into account the varying criteria and mechanisms contributors require for making funds available.

2. Proposed Composition:

a. Total of 20-30 members
b. To include representatives from:
a. UNDP, UNICEF, the World Bank and any other organization in the UN system that is considered by the Director-General to be directly or indirectly involved in AIDS prevention and control activities
b. recipient countries, with broad geographical representation
c. donor countries
d. recipient and donor agencies, institutions and organizations

H. NETWORK OF COLLABORATING CENTRES ON AIDS

1. Terms of Reference:

a. a WHO Collaborating Centre on AIDS will be designated by the Director-General to form part of an international collaborative network providing support services to the Programme.

b. criteria for selecting institutions and the methods used to designate these as WHO Collaborating Centres on AIDS will be based on the procedures outlines in the WHO Manual (XV.2.70-280).

c. although the functions of each collaborating centre may vary, most thusfar designated have included:

1. assisting Member States in initial studies/surveys on AIDS and HIV infection;
2. assisting Member States in developing laboratory capabilities by providing technical expertise, training, and proficiency testing;
3. performing confirmatory serological testing;
4. conducting quality control for national reference laboratories;
5. providing reference material and reagents;
6. assisting in the dissemination of technical information

2. Composition:

a. current total of 26 Collaborating Centres
b. proposed expansion:
1. geographical: to include additional Centres in South/Central America, Africa and Asia
2. areas of primary focus: to include Centres with special expertise in behavioural, social, economic, communications and other aspects of prevention and control useful to the Programme

C. OPERATIONAL PLANNING AND PERFORMANCE INDICATORS FOR 1987

1. Introduction

The Special Programme on AIDS has taken up the challenge of providing rapid emergency assistance to Member States and to organizations working on AIDS crises and, at the same time, establishing the conceptual, technical and organizational foundation that is needed for effective medium and long term AIDS prevention and control programmes.

During 1987, therefore, both short-term support and long-term planning and strengthening will be provided to Member States. This will involve both national and global levels of action. Immediate support, for example, is called for to improve national educational programmes designed to prevent the sexual transmission of HIV; at the same time, WHO will need to prepare generic guidelines and prototype materials that can be used and adapted nationally in designing programmes to prevent sexual transmission of HIV. The nature of the problem and the urgency with which it needs to be faced also means that during the next few years many of WHO's programme activities will need to be developed simultaneously or, certainly, not await the type of sequential development that might be anticipated with a less urgent type of problem.

Rather than limit the goals of the Programme and in so doing not be able to meet Member States' needs, the Programme has elected, even at the expense of a strict sequential development of activities, to accomplish as much as possible, as quickly as possible. Given the urgency of the HIV pandemic, we believe this approach to be a necessary and responsible one. Given the full collaboration by Member States and the network of agencies and institutions in working relationships with WHO, the Special Programme on AIDS will accomplish more than could otherwise be anticipated if a traditional, "business as usual" approach were to be followed. The fact that the HIV pandemic involves biological and social characteristics that are unprecedented means it is inevitable that some of the procedures that will be developed will be of an exploratory nature and that in retrospect, some activities will be seen as less than optimally effective.

In order to take up this challenge the Special Programme on AIDS will need a first year staffing (including consultants) and a level of financial resources unprecedented in the Organization. The Organization's capacity to address personnel and infrastructure needs and, at the same time, its ability to attract the requisite funding to support the proposed programme of work, will determine whether the performance indicators that have been outlined can be met.

In countries where there has already been an epidemiological and political recognition of the HIV problem, the Special Programme on AIDS is already providing some technical assistance and support in the formulation of national activities. This work urgently needs to be strengthened and broadened to assist these Member States already engaged in dealing with HIV. However, as better information becomes available in other countries with respect to the nature and magnitude of the HIV problem and as political willingness to confront AIDS in these countries increases, it can be anticipated that the level of support that will be requested of WHO will increase dramatically.

Therefore, the budget estimates provided for 1987 are based on collaboration with the 30 to 40 Member States, predominantly in Africa but also in Asia, the Middle East and the Americas, which have indicated active interest in immediate collaboration with WHO, yet where the current health care system infrastructure may not permit more than selective interventions at this time. However, as additional developing countries begin to recognize the HIV problem and accept the need to implement strategies to prevent HIV transmission and to reduce the impact of existing HIV infections, and where the existing health care system infrastructure is capable of mobilizing national programmes, substantial additional financial resources may be required. To the extent that key components of national programmes can be mounted in these countries during 1987, the budgetary requirements of the WHO Special Programme on AIDS could increase to a level four times above the estimates presented in part II-D. Indeed, during 1987, one of the roles of the Programme will be to collaborate closely with Member States in stimulating local assessments of the HIV situation and concomittant political acknowledgement of the steps that will need to be taken for effective prevention and control activities.

While recognizing that for a series of scientific, logistic and political reasons, a level of uncertainty is inherent in confronting the problem of HIV infection, the Special Programme on AIDS has, nevertheless, developed a list of operational priorities for 1987 and a complete list of performance indicators for 1987; these are presented in the following section. On the basis of the Programme's collaboration with those Member States which are ready to proceed with national AIDS prevention and control programmes, the personnel and financial requirements needed to perform these activities have been outlined; these are presented in the following section (II-D).

2. Proposed Operational Priorities: 1987

(a) Prevention of Sexual Transmission:

(i) Develop and distribute generic guidelines, messages and prototype materials.

(ii) Provide technical and financial support for existing educational programmes in developing countries.

(iii) Develop and distribute guidelines for development of public health communications strategies and assist several countries in conducting the first phases of this strategy implementation.

(iv) Implement global plan for promotion and distribution of condoms, including support for national or local programmes.

(v) Stimulate and support condom-related research in order to increase utilization.

(b) Prevention of Transmission by Blood Transfusion:

(i) Assist existing national and institutional blood transfusion systems to implement HIV screening, where appropriate.

(ii) Where national or institutional blood transfusion systems are inadequate to permit implementation of HIV screening, support development of such systems.

(iii) Stimulate and support research and evaluation regarding development of new HIV screening technologies adapted to needs of the developing world.

(c) Prevention of Transmission by Injections:

(i) Collaborate with EPI and UNICEF regarding HIV and the safety of child immunizations.

(ii) Support existing programmes attempting to ensure use of sterile injection and other skin-piercing equipment.

(iii) Develop survey methodology to assess scope of non-sterile injections or other uses of skin-piercing equipment and assist several countries in applying this methodology.

(iv) Develop active information exchange regarding programmes for identification and education of intravenous drug users.

(v) Assist countries in performing serological surveys among intravenous drug users.

(vi) Develop research agenda regarding prevention of HIV infection among IV drug users and stimulate and support related research.

(d) Prevention of Perinatal Transmission:

(i) Develop active information exchange on epidemiology of perinatal transmission.

(ii) Develop and distribute generic guidelines and materials for counselling of HIV-infected pregnant women.

(e) Preventing Transmission through Development and Delivery of Vaccines:

(i) Organize mechanism to ensure that clinical trials for efficacy of HIV candidate vaccines are performed under broad international scientific guidance, openly and in a socially and ethically acceptable manner.

(ii) Organize WHO-coordinated international bank for HIV and related retroviruses, serum and related reagents.

(f) Reduce Impact of HIV Infection on Individuals, Groups and Societies:

(i) Develop and distribute generic strategies and prototype materials for counselling of HIV-infected persons and their sexual partners, families and other relevant groups.

(ii) Provide technical and financial support for improved medical management and psychosocial assistance to HIV-infected persons.

(g) Other:

(i) Establish consensus on HIV-international travel issues.

(ii) Develop and operate active information exchange network to Ministries of Health, Regional and Country levels of WHO, and National AIDS Committees.

(iii) Produce and distribute WHO global informational materials about AIDS, including written and audiovisual materials.

(iv) Develop epidemiological surveillance and modelling capability to identify key data needs and provide improved estimates and tools for national and international analysis of the HIV pandemic.

(v) Establish areas of research and concern regarding the broad social and economic impacts of HIV.

(vi) Support national AIDS programme development, including: epidemiological assessment; developing national plans for AIDS prevention and control; establishing surveillance systems; establishing in-country laboratory diagnostic capability; development and dissemination of informational material to health workers at all levels.

(vii) Develop Special Programme on AIDS infrastructure, including: consultant identification and orientation programmes; recruitment of staff; informatics; identification of STCs for assignments to Member States and Regions; public information activities; fund-raising; organization of Global Commission on AIDS, Committee of Participating Parties, and expanding the Network of Collaborating Centres; strengthen linkages to other WHO Programmes and with other international agencies, including non-Covernmental organizations.

3. PERFORMANCE INDICATORS: 1987

Sexual Transmission

(i) Complete written review of risk factors for sexual transmission; define and prioritize communication, marketing and social science research areas; complete written reviews of background for these research areas.

(ii) Define epidemiological research agenda and set priorities; establish active information exchange on studies on risk factors for sexual transmission.

(iii) Develop and distribute recommendations for prevention of sexual transmission and associated generic information messages; review content of existing national materials and support materials improvement; fund local materials production and distribution complete guidelines for development and implementation of communication and education interventions; produce and distribute guidelines (protocols) for targeted epidemiological, behavioural and marketing studies.

(iv) Commission field studies in 10 countries.

(v) Conduct technical advisory missions to initiate interventions and planning process in at least 20 countries; assist 10 countries in initiating communication and education prevention interventions; support intercountry meetings on communication and education plans and programmes.

(vi) Develop collaborative projects with NGOs and the private sector in at least 10 countries.

(vii) Complete written reviews of condom and spermicide including: (a) efficacy vs HIV infection; (b) usage; (c) distribution; (d) manufacturing; (e) marketing issues; and (f) experience in sexually transmitted disease and family planning contexts; establish Consortium on Technologies to Prevent Sexual Transmission of HIV; organize international scientific meeting to review and evaluate effectiveness of currently available technologies in prevention of sexual transmission of HIV (late 1987); define research priorities and needs; develop global plan for increasing condom utilization addressing these research priorities and needs, including: (a) the estimation of current condom use and projected needs; and (b) establishment of consensus with manufacturers, scientists and distributors to determine how projected needs should be met; review standards for condom manufacturing; design and implement global condom promotion strategy, including global messages, prototype materials and condom distribution; develop and support National condom promotion strategies, including: (a) development of standard methodology (protocols) for assessment of condom use and practices; (b) support of 10 countries in conducting condom use assessment (a); (c) development of strategy for National condom promotion; and (d) support of 30 countries in implementing National condom promotion strategy, including condom purchase and distribution.

(viii) Establish active interchange system for communication, education, and research strategies, models and materials.

(ix) Conduct technical advisory missions to initiate interventions and planning process in at least 20 countries.

Transmission through blood transfusions

A: Blood transfusion systems to ensure appropriate collection, screening and use of blood:

(i) Publish and distribute guidelines on appropriate collection, screening and use of blood.

(ii) Finalize survey instrument; and assist 10 Member States in carrying out surveys.

(iii) Finalize and distribute evaluation protocol; and assist 30 Member States in implementation and analysis of evaluation protocol.

(iv) Determine optimal performance parameters for tests in developing countries; establish mechanisms and assess HIV laboratory screening methods; establish mechanisms for promotion and support of screening methods adapted to the developing world; establish panels of reference sera; establish centralized system for purchasing of HIV antibody screening tests.

(v) Establish Consortium on Prevention of HIV Transmission through Blood Transfusions; develop consultant and technical resource base, including linkages with national Red Cross Societies and League of Red Cross and Red Crescent Societies; provide 40 Member States with technical consultation.

(vi) Provide equipment, supplies and other support in selected areas, as per 40 Member States identified above.

(vii) Finalize operational research protocols.

B: Develop and strengthen counselling and medical evaluation services (pre- and post-donation):

(i) Assist 5 Member States in assessing pre-donation screening.

(ii) Publish and distribute standards and guidelines.

Transmission by blood products

(i) Establish standards and criteria.

(ii) Issue guidelines.

Transmission through injections and use of other skin-piercing instruments

(i) Complete written review of epidemiology of HIV transmission among IV drug users and persons exposed through injections or other use of skin-piercing instruments; establish consensus on epidemiological, behavioural and operational research agenda; written review of worldwide data on IV drug users; consultation to identify research issues in immunizations and HIV including risks of transmission by immunization and risks of live vaccines to HIV-infected persons; written review regarding injections (other than immunizations) and other skin-piercing instrument practices in Africa, South America, and Asia; consultation on injection use (other than immunizations) and research agenda; support serological surveys among intravenous drug users in 20 countries.

(ii) Develop methodology for surveys to describe and assess: (a) injection and other instrument exposures and practices (source(s) and numbers of injections; source(s) and numbers of exposure to other skin-piercing instruments; needle and instrument sterilization practices through observational studies); (b) hospital and clinic practices regarding needles and other instruments; (c) indications for injections by practitioners; and (d) consumer attitudes regarding injections; support surveys using standard methodologies as described above.

(iii) Coordinate and support behavioural and operational research on IV drug user identification and interventions to prevent HIV transmission; establish active information exchange on IV drug users and programmes for prevention of HIV transmission.

(iv) Prepare generic education guidelines and materials.

(v) Complete written review on sterilization methods vs HIV; promote and support studies to refine these methods, as needed; issue guidelines and training materials for health workers delivery immunizations and other injections following generic guidelines.

(vi) Support intervention programmes in 5 African, 2 South/central American and 2 Asian countries; assure the provision of adequate quantities of sterilization equipment for immunization devices; produce prototypes of self-destructible disposable injection equipment.

(vii) Review and strengthen existing monitoring practices; assist in monitoring intervention programmes.

Transmission through organ and semen donation

(i) Develop and distribute guidelines.

Transmission through perinatal transmission

(i) Complete written review of existing data on perinatal transmission and natural history of HIV infection; identify research priorities; establish active information exchange on studies of perinatal transmission and natural history of HIV infection; convene consultation on perinatal transmission by breast milk.

(ii) Identify research needs.

(iii) Develop guidelines and prototype materials for counselling of HIV-infected women of childbearing age; develop guidelines for prevention of perinatal transmission at national level.

(iv) Conduct technical advisory missions to 10 countries; assist 5 countries in developing national systems.

(v) Assess existing national surveillance systems for perinatal transmission in 5 countries identified.

Prevention of transmission through use of theratpeutic agents

(i) Convene meeting to review current activity and identify research priorities.

(ii) Establish mechanism.

(iii) Establish recommendations through above mechanism.

Prevent transmission through the development and delivery of vaccines

(i) Complete organizational and logistic arrangements for international virus, serum and reagent banks.

(ii) Establish working group on AIDS vaccines; convene meeting and establish priorities and implement plan; establish further committees and convene required seminars and meetings; deliver targeted communications to producers, producing countries and countries in which vaccines may be tested.

Reduce impact of HIV infection

(i) Publish and distribute generic guidelines and prototype materials.

(ii) Identify research priorities; support research in priority areas.

(iii) Assist programmes in 5 countries.

(iv) Convene meeting to review existing data and identify research priorities.

Other activities

(i) National programme support including development of initial assessment guidelines; epidemiological assessments in 30 countries; development of national plan guidelines; review, strengthening and development of national plans in 30 countries; establishment of surveillance systems in 20 countries; review, strengthening and development of in-country laboratory capability (ELISA) in 20 countries; review,

strengthening and support of education and training of health care workers.

(ii) International travel including review of international travel issues, including tourists, students, long-term visitors, and sexual tourism; consultations (3) on international travel issues; development and dissemination of generic prevention messages for international travellers; establishment of active information interchange on policies and practices affecting international travel.

(iii) Meetings including Global Commission on AIDS (2 in 1987); Committee of Participating Partners (1 in 1987); Network of Collaborating Centres (1 in 1987); Regional Meetings (7 in 1987); Support of travel to designated international meetings; Physician education exchange (Asia, South America, Middle East)

(iv) Information exchange including reprint library and reference service; information targeted to MOH, Regions, WRs; National AIDS Committee Network; 4 NGO Network; National Education Ministry Network.

(v) Public information including production and dissemination of global informational materials including pamphlets, brochures and audiovisuals; production of film on AIDS in Africa; production and distribution of media kit; seminars for public information staff and media.

(vi) Fund-raising and special events including organization of fund-raising among foundations and other NGOs; organization of special event(s) for awareness, informational and fund-raising purposes.

(vii) Epidemiological surveillance, modelling and forecasting including collection and dissemination of surveillance data, including case reports and results of seroprevalence surveys and studies; development of epidemiological model; field test model in 5 countries; identification of key realizable data needs for model improvement; support of epidemological and other studies to address data needs identified above; development of simplified model for interactive planning at national level.

(viii) Impact assessment including establishment of areas of research and concern (methodology and approaches); written reviews of available information in these areas; support of research protocols; coordination of meeting on social and ethical impact of AIDS, including historical aspects.

(ix) Employee health including review of existing policies and issues; consultation on employee health issues.

(x) Consultant identification and orientation including identification of all relevant areas and issues; preparation of orientation programmes.

(xi) Health worker education liaison including survey of relevant curricula practices and needs; development of modules to meet needs; support of development and dissemination of health worker material through NGOs.

(xii) Programme STCs for country assignments.

(xiii) Other support services including informatics, translation, staff training and development.

(xiv) Regional activities including support of 1-2 staff persons for each region.

D. Personnel and Financial Requirements for 1987

1. Personnel Requirements

The work outlined in II-C will require, by the end of 1987, approximately 32 professional staff. Support staff are assigned to professional staff according to a 2:3 ratio (approximately 20 support staff). The 32 staff mentioned above do not include personnel stationed in Regional Offices (6) or in Member States (7.5).

Professional Staff:

- Public Health Communications, Social Science.....9
- Medical Officers.....8
- Laboratory, Blood Transfusion.....3
- Nurse.....2
- Senior Administrator/Manager.....3
- Modeller/Statistician.....1
- Public Information specialist.....1
- Informatics.....1
- Health planner.....1
- Technical officer.....3

Personnel would be distributed within the Programme approximately as follows:

- National Programme Support.....11
- Health Promotion.....5
- Research and Development.....7
- Surveillance, Modelling and Impact Assessment.....2
- Administrative Services.....7

2. Financial Requirements

The work outlined in II-C , with caveats regarding the number and health care system infrastructure noted in that section, will require 43.7 million dollars in 1987, distributed in the following manner:

- Programme Operations.....38.0 million dollars
- Indirect Cost (13%).....5.7 million dollars

- Total.....43.7 million dollars

Approximately 60 percent of Programme expenditures (excluding central staff) will be for direct support of national programmes, and the remaining 40 percent is for global activities. However, if, as noted in section II-C, additional Member States with relatively well-developed health care system infrastructures request WHO collaboration during 1987, the proportion of Programme funding directed to national programme support would increase substantially. In addition, as noted in section II-C, if the Programme's ability to operate is delayed regarding personnel or availability of financial resource, total financial requirements in 1987 could diminish to 25-30 million dollars.

The proportion of funding used in support of national or global programme work, expressed as a percentage in each category, is shown below:

Programme Area	Staff	Consultant	Contracts	Meetings	Other	Total
Support of National Programme	49	70	40	39	66	59
Global Activities	51	30	60	61	34	41

ESTIMATED COSTS BY STRATEGY AND BY COST CATEGORY
1987

STRATEGY	STAFF MONTHS	CONSULT MONTHS	CONTRACT MONTHS	PERSON MEETINGS	OTHER COSTS	TOTAL* COST
1. SEXUAL	89	58	115	212(14)	5.78	8.314
2. BLOOD TRANSFUSION	48	105	42	20 (1)	4.25	5.650
3. BLOOD PRODUCTS	2	3	-	-	-	0.021
4. INJECTION/ INSTRUMENTS	49	62	11	40 (3)	1.66	2.334
5. ORGAN/SEMEN	0.5	1	-	-	-	0.007
6. PERINATAL	13.5	24	5	22 (3)	0.23	0.517
7. THERAPEUTIC	6	-	1	30 (2)	-	0.125
8. VACCINE	22	17	-	100 (7)	0.37	0.696
9. REDUCE IMPACT	11	14	10	15 (1)	0.55	0.828
10. OTHER						
a. National Prog. Support	44	134	29	10 (1)	2.46	3.853
b. Inter. Travel	5	6	7	30 (2)	0.10	0.307
c. Meetings	6	6	1	380(13)	0.64	1.457
d. Info. Exchange	8	2	16	-	0.11	0.364
e. Public Info.	14	10	22	100 (5)	3.60	4.217
f. Fund-raising	7	-	14	10 (1)	0.11	0.340
g. Surveillance, Modelling, Fore.	10	12	19	20 (2)	0.14	0.644
h. Impact Assess.	7	9	21	50 (3)	0.05	0.485
i. Employee Health	1	3	-	20 (2)	-	0.061
j. Consult. Ident. and Orientation	8	2	14	200 (8)	0.10	0.634
k. Health Educat. Liaison	6	8	16	-	0.45	0.746
l. Country STCs	-	90	-	-	-	0.630
m. Other support	28	-	4	-	0.35	0.410
n. Regional Staff	72	-	-	-	0.30	0.300
TOTAL	457	566	347	1259(68)	21.14	32.940*

* total does not include programme staff or indirect cost (13%)

COORDINATION BETWEEN UNICEF AND A.I.D.

My last question, and this, Mr. Chairman, will conclude my questions, again on the issue of tight budgets, on which I think we would agree.

I am concerned about the duplication of efforts. I wonder what specific ways we have of making sure that AID's efforts on behalf of children and that of UNICEF are coordinated to be sure that we have no overlapping and no duplication.

UNICEF, the Children's Fund—there are several funds earmarked specifically for children's well-being around the world—and I know AID is also engaged in this. How do you make sure that we are not falling all over each other, or duplicating?

Mr. BISSELL. Both the effort run by Jim Grant in UNICEF, as well as our Child Survival effort of $75 million a year focus, essentially, in the same area. Fortunately, we have a long institutional history of working very closely together. Quite frankly, I would rather have a little overlap between the organizations than have us miss. That is, I wouldn't want children falling between the cracks in our efforts to avoid stepping in one another's territory. In fact, we do work together. We work in these project areas together.

Senator MIKULSKI. Now do you do that in the field? For example, does the UNICEF coordinator, and I presume that there is one, get together with the AID director and make sure that children don't fall between the cracks, and that at the field level that is going on? It is great that you and Jim Grant might be talking.

Mr. KEYES. One of the things that I have noticed over the course of time about the efforts that the U.N. system, as well as major donors make in the field, is when you move from post to post in the field, there is a large degree of consultation and coordination among the representatives of the programs at the country level. That encompasses the U.N. organizations which are involved in all of these efforts, as well as other groups that are brought together either under the UNDP resident representative or the UNICEF representative. They work to coordinate the activities of major donors, as well as those other parts of the multilateral system.

A great deal of attention is given and there is sensitivity to the needs at the level of the field operation. We find that the lack of coordination is more likely to develop when you are talking about where headquarters decisions are trending, and that is one of our great problems.

Senator MIKULSKI. Fiefdom decisions.

Mr. KEYES. Exactly.

Mr. BISSELL. Let me just raise one issue which I think is an exciting opportunity for the future. UNICEF and AID have worked closely together in the areas of ORT and immunization and we are now moving into the area of a malaria vaccine.

The next exciting area, quite frankly, is the education area, and it is the kind of educational support for parents in terms of making sure that the network for bringing children along is complete. The next area where we will be working closely with UNICEF in coordinating our programs, as Alan said, in the field, as well as between headquarters, is in education. We will be seeking to develop educational support for parents in child development.

Senator MIKULSKI. Mr. Chairman, I have no further questions.

Senator INOUYE. Thank you, Mr. Ambassador.

Do you wish to make a statement, although you have said a lot here?

Mr. KEYES. I think that if I were going to say something, it would only be very briefly.

Senator INOUYE. We have your statement, and it has been made a part of the record.

REFORM IN ASSESSED PART OF UN SYSTEM

Mr. KEYES. I would like to stress one point that was made by Ambassador Walters at the close of his statement. There is a tendency to think that the voluntary part of the system and the assessed part of the system have no relationship to one another.

I think that the overall image of the United Nations has an impact on the ability of all the parts of the system to operate. Therefore, there is an important connection between our interest in and ability to achieve reform in the assessed part of the system, and our ability to maintain the effectiveness of the voluntary part of the system.

The kind of strides that we are making and our ability to make sure that they are effective will have a positive impact as well on the programs that are covered by this account. The credibility of those programs, and on our ability to sustain public and congressional support for them will benefit from the progress we are making.

Senator INOUYE. Thank you.

IFAD

Mr. Bissell, You have been very patient waiting here.

I gather that you were in Rome visiting the IFAD Headquarters.

Mr. BISSELL. We had negotiations the first week of this month.

Senator INOUYE. Would you tell us your findings as to the performance of the mission there? Do you think that they are up to par, have they improved?

Mr. BISSELL. My sense about IFAD, based upon its nine years of experience, is that it is performing an exceedingly useful function. It has had the growing pains associated with any new institution. It has come along very well in terms of project design, identification of areas for focus. It is now strengthening its area of site evaluation. It is definitely moving in the right direction.

Senator INOUYE. Is it worthy of our support now?

Mr. BISSELL. It is very much worthy of our support. I think that we have an opportunity with the current discussions regarding the future financial base of IFAD, to try to cement in place our vision of IFAD as a mature organization. That is what is so exciting about the current discussions.

Senator INOUYE. We have made pledges to this organization, but I don't suppose you are requesting the full amount to meet this pledge. When do you intend to make that request?

Mr. BISSELL. We are current in our commitments to IFAD. We are now in the process of the second replenishment. Our $26.6 million request for this next year will bring us within a few million dollars of our total commitment to the second replenishment, which the various donors and the management of IFAD have agreed will probably be ex-

tended another year. As a result, we are fully up to speed in terms of our commitments to the organization.

Senator INOUYE. I thank you very much because, as you know, Congress was very much concerned about the operations of this organization.

Mr. BISSELL. We would like to stay in very close touch. We think the organization is doing well. It still has some progress to make. We appreciate your support for the organization because it meets the unique need of addressing the small farmer requirements around the world.

Senator INOUYE. Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

IFAD FUNDING

When the organization was originally set up, when IFAD was originally set up, it was set up in part as a vehicle whereby we would see a larger participation and a larger contribution coming from the oil producing states. That commitment has never been realized.

As you look now at the next couple of years of budgets for IFAD, do you believe that the oil producing states are going to increase their commitment?

I understand that they have some economic difficulties due to the oil prices, but the fact is that that group was set up, separate and independent from other groups, since it duplicated work already being done in a lot of other places.

We said, we will give this little new agency in order that the oil producing states would have a louder voice and a larger role, and a larger financial contribution. Are those oil-producing states now prepared to step forward in a more meaningful financial way?

Mr. BISSELL. That is a very sticky issue, Senator. In the first replenishment, as you know, the OPEC states provided 42 percent of the funding. In this current replenishment, they are committeed to providing 40 percent of the funding of the organization, which I think is a significant amount.

At the meeting in the first week of March, there was much wailing and gnashing of teeth that the price of oil had dropped 50 percent in the last year or two. The OPEC states indicated how impossible it would be for them to maintain their 40 percent share of contributions to the organization.

I should say that their unhappiness over their economic condition was matched by the budget problems of many of the developed countries, such as ourselves, as well as the very difficult economic conditions in what we call the LDCs.

In the process of the discussion, a very important decision was made that is along the lines of Senator Mikulski's earlier comment, that we do expect a number of the surplus nations, such as the Republic of Korea, to significantly increase their contribution to IFAD. But all of the developed countries agreed that the original character of the organization, that is the participation in that proportion by OPEC, was maintained.

OPEC wasn't happy with the position taken. They felt they deserved a special exemption. In the course of our discussions this year, we will have several more negotiating sessions that will have funding levels on the agenda.

As far as the United States is concerned, our policy is that it is essential to the future of the organization that it retain that original concept of burden sharing, where OPEC takes that kind of financial contribution.

Senator KASTEN. I think that if that is not the case, then the reason for IFAD is significantly lessened, and maybe we should take and fold those activities in one of the other agencies that are essentially doing that kind of work.

On the other hand, if the oil-producing states can participate in the way that was originally envisioned, then I think that it would be important to continue. But it would be a mistake if we start pouring in American dollars to take up the slack for the difference between the commitment and the performance of the oil producing states.

Mr. BISSELL. That is my position exactly, Senator. My position is that if IFAD were to begin moving down the slope toward becoming an OECD-funded organization, it would probably mean dwindling into insignificance as an institution.

Senator KASTEN. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator INOUYE. Mr. Ambassador, Mr. Assistant Secretary, Mr. Assistant Administrator, we thank you very much for your appearance this morning. You have been very helpful. I believe all of us would like to submit to you written questions for your response for the record.

Ambassador WALTERS. Very good.

Senator INOUYE. Thank you.

[The following questions were not asked at the hearing, but were submitted to the UN, State, and AID for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE TO AMBASSADOR WALTERS

UNDP'S TECHNICAL ASSISTANCE PROGRAMS

SENATOR INOUYE: Please describe the United Nations Development Program (UNDP's) Roundtable meetings on development held in Africa during the past year and a half. Do you feel this response meets the need of the least-developed countries on the continent?

ANSWER: The UNDP Rountable format received strong endorsement from the African community in meetings which took place in Addis Ababa in October 1986 and in Cotonou in November 1984. The Addis meeting was particularly important since for the first time, the new Roundtable format was endorsed by Ministers representing the entire African continent. The new features of the Roundtable process include encouraging developing countries to participate actively; emphasis on policy reforms; strengthening UNDP staff; a more selective approach to the choice of countries and participants; closer collaboration with the World Bank and better preparation and organization of Roundtables.

The Roundtable process meets the needs of the least developed countries in Africa by providing a forum for full and frank discussion of their development problems, helping to mobilize donor resources to address their development concerns. Since June 1985, Roundtable meetings and Roundtable-related activities have taken place in some 12 African countries. The World Bank and UNDP consult regularly in the preparation phase of Roundtables, and cooperation between UNDP, the IMF, the Regional Development Banks and main donor agencies has been strengthened.

SENATOR INOUYE: Would you comment on the recent improvements within UNDP's system for Technical Cooperation.

ANSWER: In 1970 the UNDP was charged with being the central funding source for UN technical cooperation activities and the leader in the programming and implementation of UN development assistance. The role of the UNDP resident representative was identified as that of senior advisor to the host government. The United States and most other donors have consistently supported UNDP's leadership role despite the tendency for each UN specialized agency to conduct its own technical cooperation programs funded from its own resources. The Roundtable process is one of the more significant recent improvements to encourage better coordination and collaboration among UN specialized agencies under UNDP leadership. Another recent improvement is the Project Development Facility which is a mechanism to identify development projects with the collaboration of field representatives of specialized agencies.

U.S. NATIONALS AND UNDP

SENATOR INOUYE: What is the number of U.S. nationals serving at the professional and general service categories within UNDP? It is my understanding that it is the highest American percentage of employees within the entire United Nations system. Please provide a chart showing U.S. nationals and percentage of total for all United Nations programs.

ANSWER: At the end of 1986, UNDP employed 76 Americans in the professional and 66 Americans in the general service categories. This represented 15.26 percent of the total number of professional

and general service positions funded by UNDP general resources. The percentage of Americans in the professional category (13.74 percent) was among the highest of any organization in the UN system. In addition, 23 Americans were employed in the professional and 70 Americans in the general service categories in UNDP-administered trust fund programs, or 23.37 percent of the total number of positions.

The following table compares the percentage of American employees out of total employees in the UN system for 1981 and 1986. Only in the ILO, IMO, UNRWA, and UNDP have the number of Americans increased during this period.

AMERICANS EMPLOYED BY THE UNITED NATIONS
AND ITS SPECIALIZED AGENCIES
(shown as a percentage of total employees)

Organization	1981	1986
Decreases		
UN Secretariat	12.83	12.15
UNICEF	10.12	6.89
UNHCR	4.02	3.77
UNITAR	32.22	17.50
UNFPA	33.00	20.59
FAO	5.11	4.50
ICAO	16.51	8.08
ITU	4.17	2.93*
UPU	1.21	0.47
WIPO	3.50	2.31
WHO	5.08	4.84
WMO	5.36	4.47
IAEA	12.25	9.81
Increases:		
UNRWA	9.52	12.77
UNDP	16.67	17.33
ILO	3.40	4.00
IMO	1.02	1.92

*1985 figure is the latest available.

UNDP AND WOMEN IN DEVELOPMENT

SENATOR INOUYE: It is understood that the new Administrator, Mr. William Draper, has undertaken new initiatives involving women in development projects. Please describe, for the record, these current activities.

ANSWER: The UNDP contributed a study to the international conference on women in Nairobi in July 1985, marking the end of the UN Decade for Women. Based on the study's recommendations the UNDP is now placing major importance on involvement of women in all UNDP-supported projects and programs. New initiatives include: consideration of women's concerns during formulation of country, regional, interregional and global programs; improved data base for project planning; an assessment of women's training needs and

increased support for training and fellowships for women; and an accounting of the degree of women's participation in all project, country and sector evaluations which UNDP undertakes.

Administrator Draper has established a Division for Women in Development effective 1 April, 1987. It is headed by a woman, Ms. Ingrid Eide, who has solid credentials in the academic and international relations field. The Division will ensure monitoring of UNDP's programs and projects to ensure that a substantially larger role be given to women both as active participants in development projects and as beneficiaries.

FINANCIAL RETURN TO THE UNITED STATES FROM UNDP

SENATOR INOUYE: Please provide, for the record, the most recent information detailing the current return to the United States from UNDP's contracts and other services.

ANSWER: The following chart shows the return to the United States on UNDP inputs used in UNDP projects:

ESTIMATED RETURN VALUE (EXPENDITURES ON INPUTS) USED IN UNDP AND ITS PROJECTS COMPARED TO VOLUNTARY CONTRIBUTIONS - 1985

UNITED STATES

Item	US $ Million
I. RETURNED VALUES	
- Project-related inputs;	
1. Project Personnel of US nationality	25.83
2. Equipment procured in US	27.32
3. Sub-contracts awarded to firms in US	4.59
4. Fellowship placements in US	8.05
5. Overhead payments to UN Agencies based in US	15.06
Sub-Total	80.85
II. UNDP SUPPORT BUDGET	
1. Professional staff of US Nationality	13.44
2. Staff payments at Headquarters	21.44
3. Payments for non-US Professional Staff based at Headquarters	27.16
4. General operating expenses	27.75
Sub-Total	89.79
TOTAL RETURN VALUE	170.64
Voluntary Contribution (VC) - UNDP and Funds	164.80
Return Value (RV)	170.64
RV as % of VC	103.54 %

N.B.: The return flow does not reflect the multiplier effect of activities and expenditures in the United States (where UNDP has its Headquarters). It is therefore not fully representative of the economic benefits that the US derives from UNDP.

It is expected that the return flows to the US in 1986 would be at the same level as in 1985 ($170.64 million), while the US contribution dropped from $161.40 million in 1985 to $138.1 million in 1986.

UNDP IN AFRICA

SENATOR INOUYE: What is the current percentage of the total UNDP funds expended for Africa? Please provide, for the record, the total funds being expended by UNDP in Africa for agricultural projects.

ANSWER: UNDP expenditures in the Africa region in 1985 amounted to $242.2 million or almost 38% of total expenditures.

In 1985 total assistance in the agricultural sector in Africa through UNDP's main program and associated funds amounted to $57.4 million or slightly less than 24% of total expenditures in the Africa region.

UNDP: 1985 Expenditures, by Source of Funding and Region

Table A

	UNDP a/		Trust Funds b/		Total	
	$ million	%	$ million	%	$ million	%
Africa	195.1	34.6	47.1	61.0	242.2	37.8
Other Regions	369.2	65.4	30.1	39.0	399.3	62.2
Total	564.3	100.0	77.2	100.0	641.5	100.0

Table B

	UNDP a/		Trust Funds b/		Total	
	$ million	%	$ million	%	$ million	%
Africa	195.1	100.0	47.1	100.0	242.2	100.0
of which:						
Agriculture	43.1	22.1	14.3	30.4	57.4	23.7

a/ Expenditures financed through IPP, cost-sharing, LDC, SPR, SIS.
b/ Trust funds under the administration of the UNDP.

SENATOR INOUYE: What steps has UNDP undertaken to address the emergency needs of African countries most affected by drought and famine?

ANSWER: The UNDP has established an Emergency Operational Group within each of the countries affected by drought or famine, chaired by the UNDP Resident Coordinator and comprising representatives of UN specialized agencies. They maintain an alert on drought and famine conditions and help to serve as a coordinating group for emergency action. The group recently met in Ethiopia, for example, to discuss the shortage of food. During the drought emergency in West Africa in 1984-1985, the UNDP was highly instrumental in facilitating food shipments by interceding with governments to alleviate transportation bottlenecks. UNDP Resident Representatives of Southern African countries met in early 1985 to review and develop plans to cope with drought conditions in Botswana. Most recently (March 1987), the UN Secretary General appointed the UNDP Resident Representative in Mozambique as special coordinator for the famine emergency in that country.

The United Nations Sahelian Office, a sub-unit of the UNDP, has been in existence for over 10 years and has as its mandate the development of programs and projects to address drought and desertification. Also, the head of UNDP's Regional Bureau for Africa, Mr. Damiba, is the secretary of the UN Steering Committee which oversees follow-up action on the UN Program of Action for African Economic Recovery. Among its tasks, the Committee assists in coordinating resources and technical assistance to countries seriously affected by drought or famine.

UNDP AND OTHER PROGRAMS

SENATOR INOUYE: I understand that UNDP has several associated programs under its umbrella. Please provide, for the record, the contributions received by these programs during the past five years and briefly describe their activities.

ANSWER: The information you request appears below.

TOTAL CONTRIBUTIONS TO UN DEVELOPMENT PROGRAM
ADMINISTERED PROGRAMS
1982-1986
(in millions of dollars)

	1982	1983	1984	1985	1986
UN Captial Development Fund	$ 27.9	$ 24.2	$ 21.2	$ 21.9	$ 27.0
Special Measures Fund for the Least Developed Countries	16.4	16.1	13.6	10.5	12.0
Sudano-Sahelian Office	7.3	.5	.6	5.7	5.4
UN Development Fund for Women	2.0	2.0	2.5	2.0	3.9
Natural Resources Exploration fund	4.4	2.1	.2	4.4	2.7
UN Volunteers	2.2	1.2	.7	.8	1.2
Science and Technology	10.9	.5	.4	.3	1.0
Energy Account	3.3	.8	.1	.1	.1

Description of activities:

UN Capital Development Fund (UNCDF)

The Fund became fully operational in 1975 to assist developing countries by supplementing existing sources of capital assistance through grants and loans. Projects are intended to promote economic diversification and self-sustained growth. UNCDF finances small scale agricultural and industrial projects, as well as the social infrastructure of developing countries, which are not normally financed by larger multilateral and bilateral development agencies.

Examples of projects include: creation of revolving funds to support village agricultural cooperatives, provide mortgages and materials for low-cost housing, water resources development, food storage and transportation facilities, construction of rural schools and health clinics.

Special Measures Fund for the Least Developed Countries

This program was established in 1973 to provide assistance to those countries designated by the General Assembly as least developed. Resources of the program supplement projects financed out of allocations made to each country (IPFs) from UNDP general resources.

UN Sudano-Sahelian Office (UNSO)

Assists 22 countries in the Sudano-Sahelian region of Africa in implementing the medium and long-term recovery and rehabilitation program for drought control. The program works with governments in the region to identify and formulate projects aimed at mitigating the effects of future droughts, achieving self-sufficiency in food staples and combatting desertification. UNSO supports project work in such areas as: agricultural production, irrigation, fertilizers and pesticides, forestry, and food storage facilities.

UN Development Fund for Women (UNIFEM)

Established in 1976, administration of the fund was transferred to UNDP in 1986. UNIFEM's purpose is to provide financial and technical resources to developing countries for the support of women's economic activities; and to ensure that all development policies, plans, and projects taken into account the interests of women, particularly the poorest women in developing countries. Projects include: pre-investment programming missions to determine project feasibility and operational programs in employment, human development, food availability, energy and transfer of technology.

UN Revolving Fund for Natural Resources Exploration

Established in 1975, resources of the Fund are used for pre-investment activities in the field of exploration of mineral and geothermal resources. The Fund is replenished through contributions from successful exploration projects based on the proceeds of production, as well as reimbursement for feasibility studies carried out by the Fund. Projects are selected on the basis of their technical and economic viability.

United Nations Volunteers (UNV)

UNV recruits and places technically qualified personnel in development programs administered by governments, bilateral volunteer organizations, UN system agencies and other national and international institutions. Volunteers placed by the program provide middle and upper level operational expertise in a wide range of professions. Since its establishment in 1970, UNV has placed approximately 3,600 volunteers.

UN Financing System for Science and Technology for Development

The program was established in 1980 to strengthen the scientific and technological capabilities of developing countries by providing technical and financial assistance, and by promoting international cooperation particularly among developing countries. The program supported such activities as science and technology planning and policy-making, strengthening of scientific infrastructure, domestic research, development and personnel training. The trust fund established for this program was terminated in 1986. Future work in this area will be undertaken within UNDP's core program.

Energy Account

This fund was established in 1980 to provide contributions in cash or in kind to undertake special projects, particularly for the least developed countries, in the energy sector. Resources are used to assist governments to develop national energy policies; formulate programs and projects; assess energy resources and technologies; create or strengthen infrastructure. The Account promotes cooperation with other UN agencies, bilateral donors and the private sector in extending energy sector assistance to developing countries.

SENATOR INOUYE: What percentage of staff time and other UNDP activity are expended in support of United Nations Programs and bilateral development activities in the field?

ANSWER: UNDP requested this information from its field offices in a survey undertaken in 1984. The results of the survey indicated that on average 20 percent of staff time is expended in support of United Nations programs and 10 percent on aid coordination (of which 6 percent is spent on UN system programs and 4 percent on bilateral aid programs). On average, field offices expend 60 percent of staff time on all UNDP programs (including trust fund programs). The remaining staff time (10 percent) was spent on miscellaneous activities.

SENATOR INOUYE: Does UNDP charge administrative support costs to other programs within the UN system?

ANSWER: UNDP requires other UN system programs to provide reimbursement for support services and personnel. Unlike the fixed 13 percent charge that UNDP pays to UN agencies for implementing UNDP-funded projects, the level and nature of reimbursement to UNDP is determined on a case-by-case basis. There are no specific guidelines for the determination of reimbursement rates, other than the stipulation that the services and personnel which UNDP provides to other programs must be identifiable. given the ad hoc nature of these arrangements, UNDP could not provide information concerning the amounts reimbursed by other agencies.

U.S. AND UNDP

SENATOR INOUYE: Provide, for the record, a chart illustrating total contributions to UNDP's programs listing the United States' contribution and our percentage of the total programs.

ANSWER: The chart requested appears below:

U.S. CONTRIBUTIONS TO UNDP
PROGRAMS IN CY 1986
(in millions)

PROGRAM	TOTAL CONTRIBUTIONS	UNITED STATES CONTRIBUTION	US SHARE OF TOTAL
UNDP General Resources	$774.0	$138.1	17.89%
Capital Development Fund	27.0	.861	3.18
Special Measures Fund for Least Developed Countries	12.0	0	---
Sudano-Sahelian Office	5.4	0	---
UN Development Fund for Women	3.9	.239	6.12
Natural Resources Exploration	2.7	0	---
UN Volunteers	1.2	.065	5.41
Science and Technology Fund	1.0	0	---
Energy Account	.1	0	---

U.N. STAFF MORALE

SENATOR INOUYE: Ambassador Walters, you have noted that substantial cuts will be made in United Nations personnel over the next three years, with staff levels reduced by 15 percent. Senior staff levels will be cut by 25 percent.

You also note that additional economies, including reductions in staff travel, will also be made and that this will improve staff moral.

How will a 15 percent reduction in staff and a curtailment of travel improve staff morale?

ANSWER: In my prepared remarks, I noted that "the reform provides for a wide range of additional economies, including reductions in staff travel and the use of consultants, plus tighter personnel management, which will increase productivity while improving staff morale". Tighter personnel management is intended to improve staff morale.

The General Assembly adopted a number of recommendations regarding personnel made by the Group of Experts in its report to the General Assembly (see recommendations 41 through 62 contained in the Report of the Group of High-Level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations, A/41/49, and General Assembly Resolution 41/213). These recommendations call for, among other things, greater leadership by the Secretary General in personnel matters, the establishment of clear, coherent and transparent rules, recruitment by competitive exam, more women in professional posts, an improved performance evaluation system, clear criteria for promotion, and job rotation. Similar innovations, when applied in other organizations, have improved staff morale.

SENATOR INOUYE: What senior staff positions will be cut? What were the duties of the occupants of these positions and what were the pay levels associated with them?

ANSWER: Some cuts have already been made. Others will be made as part of the Secretary General's ongoing reorganization of the Secretariat.

Among those made to date, the Executive Director of the Economic and Social Commission for Asia and the Pacific, an Under Secretary General, has been assigned the duties of the Special Representative for the UN Humanitarian Programs Resulting from Developemnts in Kampuchea. The Special Representative held the rank of Assistant Secretary General and that position has been eliminated.

The Director General of the UN Office in Vienna, an Under Secretary General, has also been assigned the duties of the Head of the Centre for Social Development and Humanitarian Affairs, a position formerly held by an Assistant Secretary General. This position no longer exists.

The Director General of the UN Office in Geneva, an Under Secretary General, has also been assigned the duties of the Assistant Secretary General that was Head of the Centre for Human Rights. Again, this position has been cut.

Assistant Secretary General level positions in the Office of General Services, the Department of Technical Cooperation for Development, the Department for International Economic and Social Affairs (2), and Special Political Activities have not yet been filled.

On March 2, the Secretary General announced that the Department for Political Affairs, Trusteeship, and Decolonization has been assigned the responsibilities of the Office of Special Political Questions and the Office of the United Nations Commissioner for Namibia; responsibility for Field Operational and External Support activities will be assigned to the Department of Administration and Management; and, the Office of Secretariat Services for Economic and Social Matters would be absorbed by the Office of Political and General Assembly Affairs. There will be corresponding reductions in top echelon posts.

The Secretary General is preparing a progress report on the implementation of the reform, including personnel reductions. We expect him to reflect these reductions in that report.

SENATOR INOUYE: How many Under Secretaries General are there in the UN system?

ANSWER: By our most recent calculation, there are 25 Under

Secretaries General in the UN Secretariat and a total of 43 in the UN System.

SENATOR INOUYE: Will any of these positions be eliminated?

ANSWER: Yes. The reform adopted by the General Assembly in Resolution 41/213 directs the Secretary General to implement reductions in the number of regular budget posts in the UN Secretariat at the level of Under Secretary General and Assistant Secretary General. The number of positions actually cut will depend on the distribution of the recommended 25 percent reduction between the two categories.

SENATOR INOUYE: What is the pay level of an Under Secretary General?

ANSWER: Under Secretaries General in New York with dependents are paid a total net (i.e., roughly equivalent to "after tax") salary of $91,419; those without dependents are paid $82,661. These amounts include the New York post adjustment and representation allowances.

SENATOR INOUYE: How many Assistant Secretaries General are there in the UN system?

ANSWER: By our most recent calculation, there are 30 Assistant Secretaries General in the UN Secretariat and a total of 88 in the UN system.

SENATOR INOUYE: Will any of these positions be eliminated?

ANSWER: Yes. The reform adopted by the General Assembly in Resolution 41/213 directs the Secretary General to implement reductions in the number of regular budget posts in the UN Secretariat at the level of Under Secretary General and Assistant Secretary General. The number of positions actually cut will depend on the distribution of the recommended 25 percent reduction between the two categories.

SENATOR INOUYE: What is the pay level of an Assistant Secretary General?

ANSWER: Assistant Secretaries General in New York with dependents are paid a total net (i.e., roughly equivalent to "after tax") salary of $83,202; those without dependents are paid $75,993. These amounts include the New York post adjustment and representation allowances.

SENATOR INOUYE: How far down in the UN hierarchy do you have to go to reach someone who's salary is equivalent to that of a U.S. Senator?

ANSWER: A U.S. Senator's salary is $89,500 before taxes. If we figure $64,440 as the net salary after taxes, the UN equivalent grade in New York is D-1, Step V, with net compensation, including the post adjustment allowance, set at $64,373 for an employee with dependents.

SHARP CUTS IN UNICEF

SENATOR INOUYE: Ambassador Walters, in your prepared remarks, you state, "It is not our intent to hurt the genuinely valuable programs that are crucial to improving the daily lives of the world's poor."

I have great respect for your abilities, sir. You know that. Nonetheless, I must ask how you can, in candor, make such a statement while proposing a 42 percent reduction in the U.S. contribution to UNICEF.

Do you honestly believe that UNICEF would not be hurt by a 42 percent reduction in the U.S. contribution?

ANSWER: The Administration has requested $30.0 million for UNICEF for FY 1988. This represents a decrease of $4.2 million, or 11.7 percent, from the amount that the Administration requested for FY 1987.

In the face of severe budgetary austerity, this request signals the continuing commitment of the United States to support the work of UNICEF. The United States is not alone in facing such constraints. Fortunately, UNICEF foresaw the need as early as 1981 to adjust to harsher economic realities and undertook a restructuring of its operations to improve program efficiency. Such economies will permit UNICEF to preserve the momentum of its highly effective Child Survival Revolution without reducing other essential programs such as water supply, sanitation, nutrition, education and social services.

SENATOR INOUYE: Do you not regard UNICEF as a "genuinely valuable" program?

ANSWER: As I indicated in my written and oral remarks, I do regard UNICEF as a "genuinely valuable" program in keeping with our national tradition of neighborly help for the most vulnerable of all mankind, its children.

UNICEF CORE POST REDUCTIONS

SENATOR INOUYE: When you speak of 100 positions being eliminated in UNICEF, what are we to think? Was UNICEF egregiously overstaffed or has it been cut below levels necessary for effective management of its program?

ANSWER: To preserve the proper ratio between program and budget levels, UNICEF was forced to cut $11.3 million from its 1986-1987 budget, approved by the Executive Board in 1985. To safeguard certain program activities, such as its commitment to strengthening its capacity in Africa, UNICEF found it necessary to make savings through a reduction in the number of core posts.

After extensive review, UNICEF reduced core posts by 180, as follows: 36 international professional, 28 national professional, and 116 General Service. Approximately 80 of that number were actually abolished, while the remainder were converted to other sources of funding (e.g., contract personnel funded by supplementary funds).

The elimination of 80 posts represents UNICEF's desire to cope with the reality of diminishing resources and severe economic constraints. As a result of UNICEF's giving priority to systematic and integrated human resource planning, it has improved its program delivery capacity and was thus able to absorb the staff reductions. To ensure continued sufficient program support, UNICEF continued its trend of reducing core posts at headquarters such that, as of 1987, 85 per cent of those posts are now overseas.

UNICEF TRAVEL COSTS

SENATOR INOUYE: You say that, in UNICEF, travel costs of staff were reduced 23 percent between 1985 and 1986. I assume that this calculation takes into account any changes in the price of travel and that the reduction refers to not only the cost but also the amount of travel by staff in UNICEF.

Is that a correct assumption?

ANSWER: Yes, that is correct.

SENATOR INOUYE: Does UNICEF have sufficient funds for travel to allow for on-site supervision of projects and activities?

ANSWER: UNICEF's Executive Board approved a total of $20,455,523 for travel during the biennium 1986-87. The revised estimate for travel during this biennium is $15,763,185, this represents a 22.9 percent decline compared to the approved amount. UNICEF is proposing that the Executive Board approve $16,912,058 for travel during the 1988-89 biennium, an increase of 7.3 percent over the revised estimate for 1986-87.

We have been told by UNICEF that some of this reduction has been made possible by improvements in communications and computer capabilities that have eliminated the need for travel to undertake financial analysis. While travel from Headquarters for on-site supervision of projects and activities has been reduced, greater responsibility has been given to field personnel to supervise UNICEF programs.

SENATOR INOUYE: What percentage of UNICEF's budget is devoted to administrative costs? Of that, what amount is for travel?

ANSWER: UNICEF's total net expenditure, as revised, for the 1986-87 biennium, is $811,080,773. UNICEF's administrative costs are $228,231,773. The percentage of administrative costs is, therefore, 28.1 percent. UNICEF's proposed budget for the 1988-89 biennium puts administrative costs at $244,175,500 and total net expenditures at $883,071,500, making the percentage of administrative costs in the 88-89 biennium 27.7 percent.

The revised estimate for travel for the 1986-87 biennium is $15,763,185. The proposed budget for 1988-89 lists travel costs as $16,912,058.

SENATOR INOUYE: How does that percentage compare to USAID, for example?

ANSWER: According to USAID Program Trends for FY 1985 - FY 1988, USAID's operating expenses in 1986 were $429.1 million. Total AID Economic Assistance was $7,180.3 million. The ratio of administrative expenses to total expenditures is 6.0 percent. In 1987, total operating expenses are $415.1 million and Total AID Economic Assistance is $6,197.1 million. The ratio of administrative expenses to total expenses is 6.7 percent.

In comparing AID to UNICEF, it is important to consider that much of AID's assistance is extended by large loans and/or grants, with little or no administrative cost to the United States. On the other hand, UNICEF actually manages projects that are often small and require extensive program support.

QUESTIONS SUBMITTED BY SENATOR INOUYE TO SECRETARY KEYES

U.N. BUDGET REFORMS

SENATOR INOUYE: Mr. Secretary, in your prepared statement, you also discuss the package of administrative and financial reforms enacted "by consensus" by the U.N. General Assembly.

What standing do these reforms have within the U.N. system? Is the General Assembly bound to observe budgetary and administrative rules adopted "by consensus"?

ANSWER: The United Nations General Assembly is not bound to observe budgetary and administrative rules adopted by consensus. However, we believe that as a result of what we have achieved, member states, through good faith negotiation, will now act by consensus on important program budget issues that previously proved so divisive. A consensus agreement forged among the 21 member states of the Committee for Program and Coordination, drawn from all groups of member states, will represent not only a paper proposal, but a political coalition pledged to sustain their consensus in discussions with other members of their groups in the organization. Were this new process to break down, the basis for renewed confidence in the organization, particularly among the major contributors, would be shattered. We believe all members understand that such a breakdown would put us all back where we started, in a situation unacceptable to all and dangerous to the future of the United Nations.

In regard to the other organizations in the U.N. system, each has its own charter or constitution independent of the U.N. As such, each has its own program budget approval process and a different time frame for the major meetings deciding on its program budget. We are working with the individual secretariat of each organization affected by the Kassebaum/Solomon Amendment in anticipation of upcoming meetings which can best address the reform issues.

SENATOR INOUYE: You also note that the Committee for Program and Coordination also operates on a consensus basis.

What does this mean?

ANSWER: The establishment of a consensus based budget decision-making process has the effect of reducing the ability of the numerical majority to dictate decisions about the size and use of UN resources. If the resort to majority power cannot simply be assumed, real compromise becomes essential. Trade-offs must be achieved between minority and majority viewpoints, involving the exchange and modification of tangible interests. Cosmetic gestures, intended mainly to camouflage minority capitulation no longer suffice. Where the minority achieves a reasonable degree of cohesion, the result is a more balanced political dialogue, in which both the majority and the individuals composing the minority are compelled to act more responsibly.

SENATOR INOUYE: What binding effect does the Committee for Program and Coordination have on the decision-making process for the U.N. budget?

ANSWER: It is possible that CPC decisions could be over-ridden by the Fifth Committee (Administrative and Budgetary) and the General Assembly itself. However, we would not expect this to happen. As I indicated earlier, were this new process to break down, the basis for renewed confidence in the organization, particularly among the major contributors, would be shattered. We would find ourselves back where we started, in a situation unacceptable to all and dangerous to the future of the United Nations.

SENATOR INOUYE: I believe that the decisions and recommendations of the Committee for Program and Coordination are passed to the Administrative and Budgetary Committee, the so-called Fifth Committee.

Is that correct?

ANSWER: Yes, that is correct.

SENATOR INOUYE: Is the Fifth Committee required to act in accordance with the decisions and recommendations of the Committee for Program and Coordination?

ANSWER: It is not required to act in accordance with the decisions and recommendations of the CPC although we expect that it will, as I have explained previously.

SENATOR INOUYE: Is consensus required within the Fifth Committee before it passes its decisions and recommendations on to the General Assembly?

ANSWER: No, consensus is not required within the Fifth Committee before it passes its decisions and recommendations to the General Assembly. We would expect, however, that decisions taken on a consensus basis regarding spending matters in the CPC would be respected by the Fifth Committee and the General Assembly.

SENATOR INOUYE: Do the major contributors to the U.N. have sufficient voting power within the Fifth Committee to block decisions on spending matters?

ANSWER: No, the major contributors to the U.N. do not have sufficient voting power to block decisions on spending matters in the Fifth Committee. That is why the reformed program budget decision-making process is so significant. Decisions taken on a consensus basis regarding spending matters in the CPC, which we expect to be respected by the Fifth Committee and the General Assembly, will have the effect of reducing the ability of the numerical majority to dictate decisions about the size and use of UN resources.

UNDP FUNDING REDUCTIONS

SENATOR INOUYE: Mr. Secretary, in your prepared statement you raise the question, "Why is the request (for UNDP funding) so low when a central and long-standing U.S. policy has been to strengthen the UNDP as the primary source of funding and overall coordinator for technical cooperation activities conducted by UN system agencies and programs?

I have raised the issue of budgetary restraint with Ambassador Walters. The increases proposed for the World Bank and other multilateral banks demonstrate that the Administration has given priority to the MDBs in its request for multilateral assistance.

I now want to ask you, in a somewhat different form, the question you raised.

What effect has repeated reductions in U.S. contributions to the UNDP had on our policy of strengthening the UNDP?

ANSWER: The strengthening of UNDP continues despite reductions in the U.S. contribution. The cutback in our contribution has been more than made up by increased contributions from other major contributors and by the appreciation of the currencies of the major developed countries vis-a-vis the U.S. dollar. Total contributions to UNDP rose from $663 million in 1985 to $774 million in 1986. Contributions for 1987 are expected to be $863.9 million. Despite the reduction in our contribution, UNDP has never been sounder financially.

SENATOR INOUYE: In view of these reductions, can the UNDP effectively function as the primary source of funding and as the overall coordinator for technical assistance within the UN system?

ANSWER: Despite the reduction in the U.S. contribution, we continue to support UNDP and its central coordinating role for UN grant technical assistance. We much prefer that technical assistance be funded through this voluntary agency rather than through the assessed budgets of the specialized agencies and the UN itself. We are aware that if UNDP funding is not available, there may be increased efforts to fund technical assistance through these assessed budgets.

CONTRIBUTIONS TO SCIENTIFIC ORGANIZATIONS

SENATOR INOUYE: Mr. Secretary, last year we received many letters from scholars and scientists who were concerned with reductions in funding proposed for International Convention and Scientific Organization Contributions.

These contributions enable the United States to participate in important activities supported directly by UNESCO. I believe the United States withdrew from UNESCO about two years ago.

In view of the broad support given to these contributions by Americans, particularly those in the educational and scientific communities, why have you proposed a sharp reduction in funding for fiscal year 1988?

ANSWER: Rather than view the FY 1988 funding as a reduction from the amount appropriated in FY 1987, I think it is more accurate to state that we are requesting approximately the same amount as in FY 1986 ($1.228 million), the first year after our withdrawal from UNESCO. The amount appropriated for FY 1987 ($2.0 million) will permit the Department to provide supplementary contributions on a one-time basis. While additional funds could be put to productive use on worthwhile projects, it is our view that the amount requested for FY 1988 is sufficient to protect the more important, direct benefits to American scientific and other communities formerly derived through membership in UNESCO.

SENATOR INOUYE: How would a reduction of this size affect U.S. participation in such activities as the Universal Copyright Convention or the Intergovernmental Oceanographic Commission? What activities would be cut out?

ANSWER: U.S. participation in the Universal Copyright Convention (UCC) will not be affected by the variations that have occurred in these funds. The U.S. contribution to the UCC is expected to be about $80,000 in FY 1988, approximately the same as in FY 1987 and FY 1986. The U.S. contribution to the Intergovernmental Oceanographic Commission (IOC) in FY 1988 is expected to be about $300,000, as it was in FY 1986. In FY 1987, we anticipate supplementing this amount with at least $200,000 on a one-time basis. The IOC will use this supplementary contribution to finance specific projects of high priority to U.S. oceanographic interests as determined by the Panel on International Programs and International Cooperation in Ocean Affairs.

SENATOR INOUYE: If I recall correctly, the United States withdrew from UNESCO because of a dispute with UNESCO on management and budgetary issues.

Has our withdrawal had the desired effect?

ANSWER: Our withdrawal did force UNESCO to reduce its expenditures, but the changes made to date in its overall program have not seriously addressed the concerns that led us to withdraw. The prospect of a change in leadership later this year may allow the Organization to undertake much needed structural change, particularly in the way decisions are made on budget and program.

SENATOR INOUYE: Have our losses resulting from our withdrawal been offset by positive improvements in UNESCO operations?

ANSWER: A committee on reform has been established under the leadership of the Chairman of the Executive Board. It has not, however, recommended changes to date of a magnitude or significance to induce us to review our decision to withdraw.

SENATOR INOUYE: In hindsight, does our withdrawal appear to have been a prudent action?

ANSWER: Yes. Our withdrawal appears to have provoked efforts to begin to look at the necessity of reform as well as to change UNESCO's leadership. We maintain an observer in Paris who works with our allies to encourage reform. We also have a Reform Observation Panel for UNESCO to assess and report on the UNESCO reform process and to encourage reform efforts that advance continuing U.S. interests.

UNITED NATIONS FELLOWSHIP PROGRAM

SENATOR INOUYE: Mr. Secretary, in recent years we have seen a decline in U.S. support for the UN Fellowship Program. This program places students from developing countries in universities around the world and arranges study tours for individuals, most of whom are senior government staff.

Why is the Administration opposed to U.S. participation in this program?

ANSWER: We are not opposed to U.S. participation in this program. However, the UN Fellowship Program is not an international organization. Funds appropriated under this budget item go towards financing administrative and other costs associated with the training of individuals from the developing world under sponsorship of UNDP and other UN special agencies. Elimination of this item from the budget would not mean the termination of the UN Fellowship Program in the United States. It would simply mean that the administrative costs would have to be borne by the UN sponsoring agency or the recipient country.

We believe that the UN Fellows Program serves a useful and worthwhile role. We also believe that there are other useful and worthwhile programs included in the IO & P budget request. Faced with competing demands for limited budgetary resources, the Administration has decided that funds for the administration of the UN Fellowship Program could be better used in other, higher priority programs.

SENATOR INOUYE: What percentage of UN Fellows study in the United States? What percentage of the costs of the program are borne by the United States?

ANSWER: In 1985, 11.6 percent of total UN fellowships awarded were for study in the United States. The tuition, subsistence, and travel of the 1,535 fellows financed by the UNDP (the principal but not exclusive source of UN fellowship financing) who studied in the United States in 1985 came to approximately $8.05 million. This amount was funded by the United Nations system, while the U.S. Government provided $449,000 for the administrative overhead costs for this training in FY 1985.

SENATOR INOUYE: What do we gain by withdrawing our support? What do we lose? Who made the determination to withdraw?

ANSWER: The training of foreign nationals in the United States provides numerous advantages to us, including the obvious one that UN funds are expended in our own institutions. In addition, persons trained in the U.S. learn our techniques and become familiar with American equipment and suppliers as well as with American commercial, technical, and educational organizations. Trainees are also exposed to American values and priorities. If fewer developing countries choose to send their fellows to the United States for studies, we would lose some of these benefits. No one individual is responsible for funding decisions in the IO & P Account. Decisions to seek funding or not are made only after extensive consultation with all interested participants.

UNIDO INVESTMENT PROMOTION SERVICE

SENATOR INOUYE: Mr. Secretary, the single largest increase requested by the Administration for an activity under this account is a 67 percent increase in funding for the UN Industrial Development Organization. Your discussion of UNIDO in your prepared statement is, essentially, a litany of goals.

Can UNIDO plan, manage, and implement effectively?

ANSWER: I believe that the North American office of the UNIDO Investment Promotion Service (IPS) is capable of planning, managing, and implementing an effective program of work. The IPS office relocated from New York to Washington in December of 1986 and began its operations here only recently. The new head of the IPS office brings to the position valuable experience in industrial development and promotion, including over 10 years in such activity with the State of Vermont. His assistant adds in-depth knowledge of the capabilities, and limitations, of the developing countries in attracting foreign investment. These two Americans possess an appropriate combination of skills and practical experience. If they are given the necessary financial base, I expect that they will successfully promote investment opportunities in the developing countries to the U.S. private sector. We are very much interested in this program because UNIDO is the only UN agency having a specific mandate to work with the private sector.

SENATOR INOUYE: What is the U.S. percentage share of UNIDO funding at present and why do you propose to increase that share?

ANSWER: The percentage share of the U.S. contribution to the IPS office in FY 1987 is $150,000, or about 40 percent of the start-up office budget. The remainder is funded from UNIDO headquarters. We have requested an increase in the U.S. funding to $500,000 for FY 1988, which would be full funding of the office. We seek this increase for two primary reasons: 1) to demonstrate the importance we attach to UNIDO's investment promotion activities in the United States, and 2) in recognition of, and to support, the office's new program of work, which proposes increased and direct cooperation between the office and the U.S. private sector.

With a budget of $500,000 in FY 1988, the IPS office would be in a position to expand its outreach and cooperative activities with industry associations, business organizations, state and regional development associations, chambers of commerce, and individual U.S. firms. Of the seven IPS offices worldwide, the Washington office is the only one which does not receive full funding from the host government. The uncertainty in the level of U.S. funding has a negative impact on the ability of the IPS office to plan and carry out its program.

IAEA AND NONPROLIFERATION

SENATOR INOUYE: Mr. Secretary, the Administration has requested increased funding for the International Atomic Energy Agency. Your primary justification for the request is that IAEA "directly strengthens the commitment of developing countries to our nonproliferation goals."

Just how effective is the IAEA in advancing our nonproliferation goals?

ANSWER: IAEA safeguards play a major role in support of crucial US nonproliferation and national security interests and goals. The United States was a primary force in the establishment of the IAEA in 1957 and has since been a source of strong support for the Agency with particular emphasis on its safeguards system. The international safeguards system applied by the International Atomic Energy Agency (IAEA) is a cornerstone of international efforts to prevent the further spread of nuclear weapons.

Since the beginning of the nuclear era, those involved in nuclear development have recognized that some of the nuclear material and equipment used in peaceful nuclear programs can be adapted for misuse in the production of nuclear explosives. Consequently, the IAEA's safeguards system is designed to provide assurance that nuclear material in peaceful nuclear programs under safeguards is not diverted for misuse in nuclear explosives. If a significant quantity of material should be diverted, the IAEA safeguards system is designed to detect the diversion in a timely manner and to report that event to the international community through the Agency's Board of Governors. From its modest beginnings in the early 1960s, the safeguards system has grown to cover almost all of the nuclear material used in peaceful nuclear programs worldwide, outside the nuclear weapons states.

The United States requires by law that IAEA safeguards be applied to all U.S. exported nuclear material. Without IAEA safeguards, not only would these exports cease, but also the degree of uncertainty regarding the use of nuclear material worldwide would increase enormously, fueling international suspicions and instability. Thus, the safeguards system plays a central role in ensuring the continuation of international nuclear commerce, while providing assurance to the international community that nuclear material is not misused for non-peaceful purposes. Any reduction in the breadth or effectiveness of IAEA safeguards would seriously undermine non-proliferation goals worldwide, including those of the United States.

The existence of the IAEA safeguards system effectively ensures that safeguarded nuclear material and facilities are not used for nuclear weapons and explosives. It is central to maintaining the international norm for requiring IAEA safeguards on all international nuclear commerce. These facts together either prevent countries altogether from acquiring nuclear weapons or explosives or, at the least, make such acquisition efforts much more expensive and delay their completion considerably.

IAEA INSPECTION RIGHTS

SENATOR INOUYE: Does the IAEA have inspection rights in any countries which are not signatories to the nuclear Non-Proliferation Treaty (NPT)?

ANSWER: Yes. In fact, all states that have significant nuclear activities have, or are expected to have, safeguards applied to part or all of them. This includes all of the nuclear weapons states. There are several ways in which a state can incur an obligation to accept IAEA safeguards. For example, a state unilaterally may request the IAEA to apply safeguards to a particular nuclear facility or to specific nuclear material. A state may also enter into a supply contract with another state under which it is required to accept IAEA safeguards on nuclear material supplied pursuant to this contract as is the case with all which have agreements with the United States. The most common, and the most desirable way, for a state to incur a safeguards obligation is through adherence to the Nuclear Non-Proliferation Treaty (NPT). Under the NPT, all non-nuclear weapons states party to the Treaty are required to conclude a safeguards agreement with the IAEA to provide for safeguards on all nuclear material under their jurisdiction or control (so-called comprehensive or full-scope safeguards). At present there are 133 non-nuclear weapons states party to the NPT (three nuclear weapons states including the United States, Great Britain and the USSR are also party) which have a binding international legal obligation to accept full-scope IAEA safeguards on all of their nuclear material. Non-nuclear weapons states which are full parties to the Treaty of Tlatelolco also accept a comprehensive safeguards obligation.

NONSIGNATORIES TO THE NPT

SENATOR INOUYE: Is it not true that our primary problems in this area lie with those countries which are not signatories of the NPT?

ANSWER: Yes. Those countries which are the greatest concern from a nuclear proliferation perspective are countries which have not adhered to the Nuclear Non-Proliferation Treaty (or in Latin America are not full party to the Treaty of Tlatelolco) and have not assumed an international obligation to accept IAEA safeguards on all nuclear material under their jurisdiction or control. The Administration continues strong efforts to promote universal adherence to the NPT and acceptance of comprehensive IAEA safeguards as a way for states to demonstrate clearly their intention to use nuclear material strictly for peaceful purposes.

Even though these countries have not joined the NPT, safeguards are applied to much of their nuclear material, and in some cases, to all.

IAEA SAFEGUARDS

SENATOR INOUYE: Will you please tell the Subcommittee how the safeguards program actually works in practice. How are inspections carried out? Does IAEA have inspection rights or must it always seek permission?

ANSWER: Every safeguards agreement provides that the IAEA has a right, and indeed an obligation, to inspect the nuclear facilities and materials covered by that agreement. When a state enters into a safeguards agreement with the IAEA, it concludes detailed arrangements known as subsidiary agreements and facility attachments. These document the specific means whereby safeguards will be applied to the nuclear facilities and materials covered under the agreement. These arrangements specify what records and reports the state will produce and how the IAEA will engage in their verification as well as on-site inspection and measurement of nuclear material which constitute the safeguarding process. While these detailed arrangements specify the frequency and duration of routine safeguards inspections, they also provide for unannounced surprise inspections if the IAEA deems necessary.

Since the majority of safeguards agreements concluded with the IAEA are pursuant to the Nuclear Non-Proliferation Treaty (NPT), they provide for safeguards on all of the nuclear material under the jurisdiction or control of the state, as required by the Treaty. Thus the vast majority of states accept a so-called comprehensive or full-scope safeguards obligation under the NPT which vests the responsibility for conducting safeguards in the IAEA. While the NPT (and the Latin American Treaty of Tlatelolco) provide for comprehensive safeguards, all safeguards agreements provide for IAEA access to safeguarded nuclear materials or facilities for inspection purposes.

MANAGEMENT REFORM IN UN AGENCIES

SENATOR INOUYE: I think the United States owes a debt of gratitude to you and your associates for your achievements in administrative and budgetary reforms in the United Nations.

What successes have you enjoyed in these endeavors in the Specialized Agencies of the United Nations?

ANSWER: The modification of Section 143 of P.L. 99-93 which the Administration proposed to Congress would allow for full payment of U.S. assessments provided the specialized agencies have made substantial progress toward adopting and implementing reforms in budget procedures comparable to those adopted by the UN. We believe recent actions by the WHO Executive Board and UNIDO's Program and Budget Committee meet this test, but we want to ensure implementation of these new procedures in future years. Consideration of similar reforms is, or will be, under review in the other agencies and we expect similar success.

QUESTIONS SUBMITTED BY SENATOR INOUYE TO MR. BISSELL

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

SENATOR INOUYE: Mr. Bissell, I understand that you have recently returned from the headquarters of the International Fund for Agricultural Development (IFAD) in Rome. I believe you were engaged in preliminary discussions which may lead to a third replenishment of IFAD resources.

What can you tell the Subcommittee about IFAD's recent performance? Is it fulfilling our expectations? Has it received a favorable performance rating by A.I.D.?

MR. BISSELL: The trip to which you refer, Senator, was to participate in the first session of inter-governmental discussions on IFAD's Future Financial Basis and Structure. These discussions will engage representatives of 36 member governments, throughout 1987, in consultations on how IFAD's resource base might be strengthened and its planning levels made more predictable. This first meeting was quite preliminary in nature, and I will be sure to consult with this and other interested Committees as we move further into these discussions. Actual negotiations on a third replenishment are scheduled to begin in January, 1988.

On balance, we are quite satisfied with IFAD's performance. Like any development institution, IFAD's portfolio of activities represents a mixture of successes and failures. IFAD's recent report on the status of projects currently under implementation confirms this view: 80% of ongoing projects will most likely meet or exceed their original targets and objectives and 20% suffer from moderate to sericus implementation problems. If, as projected, 80% of IFAD's projects meet or exceed their original objectives, we would consider this to be an impressive start for a young institution with a very difficult mandate. However, statistics tend to present a rather sterile picture of IFAD's performance and should be complemented by perceptions.

A.I.D.'s perception of IFAD is that it has learned much in the last ten years on how best to reach the small farmer and landless poor with cost-effective methods to increase agricultural production and incomes. As was noted in the A.I.D. evaluation of IFAD in 1984, this institution is grappling with a very difficult mandate and has exhibited a remarkable determination in attacking the root causes of the poverty cycle in developing countries.

We have seen IFAD's projects change and improve over time. A greater percentage of IFAD's projects are now designed by IFAD and cofinanced by other donors, both multilateral and bilateral. We have seen a greater emphasis on beneficiary participation and the formation of farmers' groups and cooperatives to handle input distribution, marketing and extension services. The role of women in agricultural production, animal husbandry and small-scale cottage industries is a feature of virtually all of IFAD's more recent projects.

In short, we are pleased with IFAD's first ten years of performance and will continue to work closely with this young institution as it faces new and different challenges over the next decade.

SENATOR INOUYE: The amount requested by the Administration ($26.6 million) does not complete the U.S. pledge to the second

replenishment of IFAD resources.

How much has the U.S. contributed to the second replenishment? How much is required to complete this pledge? Why have you not requested the full amount?

MR. BISSELL: Of the U.S. pledge of $79.8 million to IFAD's second replenishment, $47.4 million has been provided to date. If the Administration's FY 1988 request of $26.6 million for IFAD is appropriated by the Congress, the United States will have provided $74 million of our IFAD II pledge, with approximately $6 million to be provided in FY 1989.

Negotiations on a replenishment which was to have provided funding for IFAD's operations during the 1985 - 1987 period were not completed until January, 1986. This delay in reaching agreement on the replenishment has resulted in a concomitant delay in payments on the part of most donors.

Additionally, it is our understanding that the Congress alerted IFAD management to the possibility of a four-year U.S. payment cycle when $10 million of the FY 1987 appropriation for IFAD was converted to a U.S. pledge to IFAD's Special Program for Sub-Saharan African Countries Affected by Drought and Desertification.

IFAD SPECIAL PROGRAM FOR AFRICA

SENATOR INOUYE: Mr. Bissell, the United States has contributed $10 million to IFAD's Special Program for Sub-Saharan African Countries Affected by Drought and Desertification.

What is the total amount that IFAD expects this program to cost? What amount does the Administration support as the U.S. share? Does the Administration intend to request funding for participation in the program in the future? In your judgement, is the IFAD Special Program supportive of the objectives of the Administration's proposed Fund for Africa? If so, would budgetary concerns not be better served by reducing the amount in the A.I.D. program and increasing the amount contributed to IFAD? Are there not benefits to be derived from burdensharing?

MR. BISSELL: IFAD hopes to raise a total of $300 million in voluntary contributions for its Special Program for Sub-Saharan African Countries Affected by Drought and Desertification. This four-year Special Program became effective in May 1986, and approximately $200 million has been received in payments or pledges to date, including the $10 million U.S. contribution which was appropriated by the Congress in the FY 1987 Continuing Resolution.

The Administration fully supports the objectives of IFAD's Special Program: linking sustainable economic recovery in Africa with environmental rehabilitation through an emphasis on smallholder production of traditional staple crops and small-scale irrigation investments. However, ongoing constraints on our budget and other priorities for scarce U.S. development funds do not allow for an additional U.S. contribution to IFAD's Special Program. Since this program is financed entirely by voluntary contributions -- outside of donor pledges to IFAD's replenishments and burden-sharing considerations -- respective member shares of the total are not applicable. The voluntary nature of these contributions implies that each donor weighs its decision on whether or how much to contribute against individual budgetary and development priorities.

There are many important distinctions between IFAD's Special

Program for Sub-Saharan Africa and A.I.D.'s proposal for a Development Fund for Africa.

First, IFAD's Special Program is specifically geared toward the immediate rehabilitation needs of the drought-affected countries in the sub-Saharan region. As such, IFAD's program is limited to a very narrow range of sub-sectoral activities; i.e., small farmer agricultural production and desertification. A.I.D.'s proposed Development Fund for Africa, on the other hand, will incorporate all of the activities pursued under the functional account system: agriculture, health, population, child survival and environmental activities. This is clearly much more broadly focused than the IFAD Special Program. Moreover, the macroeconomic and sector level policy dialogue pursued by A.I.D. is far more comprehensive than the IFAD's small-farmer specific policy dialogue.

Second, IFAD's Special Program is a short-term undertaking with a highly specific mandate. Conversely, one of the key features of the Development Fund for Africa is the concept of multi-year availability of funds and a greater continuity of resources to target, coordinate and sustain funding over the medium and long term. I believe it is important that we demonstrate a strong bilateral commitment to African development in response to African leaders who, at the UNGA Special Session last May, made a convincing case for long-term, sustained donor commitments to support comprehensive economic policy reforms.

Finally, the recipients of IFAD's and A.I.D.'s development resources are, at times, different. IFAD is a multilateral institution and therefore considers countries such as Ethiopia eligible for funding under its Special Program.

Clearly, our proposed Fund for the management of a more responsive and flexible response to the needs of the African countries serves a very different purpose than does the IFAD Special Program for Sub-Saharan Africa.

QUESTIONS SUBMITTED BY SENATOR LEAHY TO AMBASSADOR WALTERS

UNICEF

SENATOR LEAHY: Mr. Ambassador, today one billion people live in poverty. That is more than at any time in histroy. Despite the desparate needs of these people, the Administration is proposing a 40 percent cut in oour contribution to UNICEF. You have testified that this has nothing to do with UNICEF, which is widely praised for saving the lives of millions of children. Rather, it is justified because of the budget constraints.

The United states has been the largets contributor to UNICEF since its creation in 1946, and an American has always been its director. This has enabled us to provide leadership in the way UNICEF's funds have been used. However, this year Sweden is expected to contribute more than $30 million, and in doing so will become, for the first time, the largest UNICEF contributor.

Will the fact that the United States will no longer be the largest contributor to UNICEF adversely affect our ability to determine UNICEF's future?

ANSWER: The United States contribution to UNICEF in 1987 is $51 million. In FY 1988 we have requested $30 million in keeping with Administration efforts for budget restraint. We do not know what Sweden plans to contribute to UNICEF in 1988. In any event, the United States will continue to exercise a strong leadership role in UNICEF. The United States will still remain the largest contributor since we also help to fund UNICEF projects in the field through bilateral contributions via the Agency for International Development, ands we provide substantial food aid in support of UNICEF programs.

UNICEF'S ADMINISTRATIVE COST-SAVING MEASURES

SENATOR LEAHY: In your prepared statement you mention the various cost-saving measures being implemented by UNICEF. You state that travel costs of UNICEF staff were reduced 23 percent between 1985-86, and that over 100 positions were eliminated.

Will administrative cost-saving measures such as these adequately compensate for the $20 million cut in the U.S. contribution to UNICEF?

ANSWER: Administrative cost-saving measures should improve management and reduce headquarters and overhead costs. These efficiencies, in turn, should increase the effectiveness of program delivery. The cost-savings measures are not designed to compensate directly the reduction in the Administration's request for UNICEF for FY 1988, a reduction of $4.2 million compared to the FY 1987 funding request of $34.2 million. Rather, these measures reflect UNICEF's adjustment to harsher economic realities and restructuring of its operations to improve program efficiency.

QUESTIONS SUBMITTED BY SENATOR LEAHY TO AMBASSADOR KEYES

U.S. STAFF IN UNEP

SENATOR LEAHY: In the past two years, the Administration's requests for U.S. funding for UNEP have decreased almost 45%. In your prepared statement you do not criticize UNEP's programs, but rather the lack of Americans on UNEP's professional staff. By annually reducing our contribution to UNEP, how are we making it more likely that more Americans will be hired on UNEP's professional staff?

ANSWER: There are several reasons why we have decreased our contributions to UNEP over the past few years. The first and primary problem is that of severe budget constraints. Second, UNEP's record of hiring American citizens has been poor. The Department has been concerned by this problem. However, we have been advised recently by UNEP that this concern will be fully addressed. Finally, we have held for some time that other donor governments should contribute a greater percentage of the UNEP Environment Fund.

QUESTIONS SUBMITTED BY SENATOR KASTEN TO AMBASSADOR WALTERS

UN BUDGET GROWTH

SENATOR KASTEN: Do I understand correctly that the revised U.N. budget for 1986-1987 is 4.5 percent or $61 million higher than the budget approved by the 40th General Assembly?

ANSWER: Yes. The increase of $61 million, or 4.5 percent, in the revised appropriations for 1986-1987 represents the growth in net expenditures over the initial appropriations approved at the 40th UN General Assembly. Approximately three quarters of this increase was due to the decline in the exchange rate of the U.S. dollar (which was offset in part by reduced inflation estimates). Program growth accounted for the remainder of the increase.

OFFICE OF RESEARCH AND COLLECTION OF INFORMATION

SENATOR KASTEN: On March 2nd, the Secretary General announced his latest restructuring proposal. What is the Office of Research and the Collection of Information?

ANSWER: The Office of Research and Collection of Information (ORCI), a new office to be headed by Assistant Secretary General James Jonah (Sierra Leone), is part of an overall restructuring of the political departments in the Secretariat, stemming from the reform recommendations of the Group of Experts for consolidation of functions in the United Nations.

The creation of this new office supports our interests. It will include the political information news service (PINS), which provides daily and weekly summaries of worldwide news to the Secretary General and top UN staff. We and other Western countries have been pushing for the past two years to have this function removed from the Department of Political and Security Council Affairs, which is led by a Soviet national, because of clear indications that its output had contained an anti-Western bias.

The creation of ORCI in the Office of the Secretary General will consolidate similar functions from the Department of Political and Security Council Affairs, the Department of Political Affairs, Trusteeship, and Decolonization, and the Department of Public Information, giving the Secretary General a single source of short-term political information taken from public sources.

In summary, ORCI will provide an improved collection service to the Secretary General. It is sensible from a management point of view, and we and others will follow closely the work of the office to ensure that its outputs are not biased.

SENATOR KASTEN: Is this an intelligence agency?

ANSWER: No, it is not an intelligence agency. ORCI is intended to collect, review and disseminate to the Secretary General political data from public sources.

DIVISION FOR OR PALESTINIAN RIGHTS

SENATOR KASTEN: I'm informed that in the budget for the United Nations, some $301,000 was requested to "cover travel and subsistence" of members of the Division of Palestinian Rights. While the United States specifically withholds its funds for activities which benefit the P.L.O. doesn't this sum sound a bit excessive?

ANSWER: The revised budget for 1986-1987 contains $285,300 for the travel and subsistence of the staff of the Division for Palestinian Rights. This amount is substantial because the staff is required to service up to 18 meetings on the "Question of Palestine" which were planned for the biennium. Most of these meetings will be held outside of New York at sites in Asia, Africa, Europe and Latin America, as exceptions to the general rule that meetings be held at headquarters.

FOREIGN AID AND VOTES IN THE UN

SENATOR KASTEN: How successful do you feel that the U.S. has been in applying the leverage obtained by our foreign aid dollars to votes in the United Nations?

ANSWER: Let me begin my answer with this caveat: voting in multilateral fora is only one of many factors which make up our total bilateral relationship with a country. Political, strategic and humanitarian factors must all be considered alongside multilateral behavior in arriving at final decisions regarding foreign aid levels.

In recent years, however, the U.S. has increasingly stressed the importance of votes in the U.N. in our bilateral relations. The annual report I present to Congress on voting practices in the UN has become a valuable tool in this process. Assistant Secretary Keyes has created the new "Office of Multilateral Program Coordination" within the Bureau of International Organization Affairs to further sensitize U.S. policymakers on the importance of behavior in multilateral fora. In my contacts with representatives in New York and around the world, I have made clear that behavior in the UN is being watched closely and will be factored into our overall bilateral relationship.

On a few occasions, UN behavior has become the deciding factor in decisions on foreign assistance levels. For instance, Zimbabwe's vote in the Security Council on the downing of KAL 007 resulted in the immediate cancellation of significant levels of foreign assistance to that country. Conversely, during recent consideration of foreign assistance requests, a proposal to discontinue assistance programs in several smaller African countries was rejected because these countries were relatively more supportive of U.S. policies in the UN than most other African aid recipients.

Because we have now demonstrated that voting behavior will be considered, I have sensed greater sensitivity to the concerns of the United States in multilateral fora and a growing recognition that unfriendly actions in the UN are no longer cost-free.

HUMAN RIGHTS IN CUBA

SENATOR KASTEN: Why, in your opinion, was the United States unsuccessful in getting the UN Commission on Human Rights to condemn massive violations of human right in Cuba?

ANSWER: India, seconded by Algeria, introduced a procedural motion to "take no action." This motion was approved by a vote of 19 to 18 with six abstentions. Had the vote been tied, the procedural motion would have come to a vote - a vote we would certainly have won.

The procedural motion drew the support of the Soviet bloc, a few "non-aligned" states and, most disappointing, several Latin American countries: Venezuela, Colombia, Argentina, Mexico, and Nicaragua. While Nicaragua's vote against us is to be expected, we were disturbed to see other Latins supporting a move to prevent the Commission from carrying out its mandate: to investigate the situation of human rights around the world. I should mention that Costa Rica - small and unarmed - voted with us; an inspiring example of decency and courage. Brazil abstained.

Clearly, many of those who voted against us were afraid of possible Cuban retaliation. We know that some of the Latins were threatened; let us not forget that several of them have had experience with Castro-sponsored terrorism.

Some delegations accused us of "politicizing" the Commission. That is nonsense. No one accused us of that when we introduced resolutions on Chile and South Africa. This was, nevertheless, a convenient excuse for some who decided - for other reasons - to vote against us.

Others used as a "flag of convenience" their membership in the so-called Non-aligned Movement. Again, a convenient excuse; we should remember that several non-aligned countries voted with us. Again, I should mention the good support we received from our African friends: five Africans voted with us; three voted against us; two abstained.

We believe we had great sucess in bringing the issue forcefully before the world's pre-eminent human rights body. By the time we had finished our presentation, there was no longer any question of <u>whether</u> there were violations of human rights in Cuba. The question was whether, <u>despite</u> the convincing proof we provided, delegations would allow other considerations to determine their vote.

We intend to keep the issue alive. We intend to continue to speak out for the 15,000 political prisoners in Cuba, for the 1.4 million exiles, and for the millions of Cubans still in Cuba who cannot speak freely.

CHANGES IN VOTING PATTERN

SENATOR KASTEN: General Walters, last year in an answer to a question from me, you stated that you refused to accept behavior of other nations in the U.N. which denounced the U.S. publicly that you would not accept that, and would work against that kind of an attitude. Have you made any progress?

ANSWER: Not as much as I would have liked to make, but some. The record of the 41st Session of the General Assembly is one way of measuring such progress. At the 41st UNGA we did considerably better than at the 40th UNGA in obtaining support for our efforts to delete clauses critical of the United States or U.S. policy in resolutions on Namibia and apartheid. We were able to delete 12 of 15 such name-calling references in plenary resolutions during 1986, that is 80 percent. At the 40th UNGA, 74 percent of such references were deleted.

Progress was also reflected in the additional slight increases in voting coincidence between the United States and all of the major

regional groups except the Association of South East Asian Nations (ASEAN, for which there was an .8 percent decrease) and the Warsaw Pact. The overall level of coincidence is still too low, but I am encouraged at the progress that we have made at both the 40th and 41st sessions of the General Assembly.

Our other successes at the 41st General Assembly, which I referred to in my oral and written testimony, were also reflections that our protracted diplomatic efforts to ensure that all delegations are aware of how seriously we take the General Assembly have had a beneficial impact.

SENATOR KASTEN: General Walters, I imagine that you are familiar with the contents of the voting practices report, so perhaps you can tell us whether you saw any shifts or changes which we should be aware of. Are any of the countries which have not been very supportive any more supportive than they have been? If so, who are they?

ANSWER: As I have noted in my answer to a previous question, we have seen a continuation of small improvements during the last two General Assemblies. In fact there has been a small positive trend since the inception of the voting practices report in 1983.

Among the most significant increases in voting coincidence from 1983 through the end of the most recent General Assembly were the following.

	Percent Coincidence 1983	Percent Coincidence 1986	Difference
AFRICA			
Malawi	24.7	36.8	+12.1
Mauritius	19.7	27.4	+ 7.7
Sao Tome & Principe	12.2	18.2	+ 6.0
Zaire	25.0	30.3	+ 5.3
ASIA			
Fiji	25.4	35.5	+10.1
LATIN AMERICA			
Costa Rica	30.5	42.4	+11.9
Dominican Republic	24.1	35.7	+11.6
Dominica	39.5	70.8	+31.3
El Salvador	30.2	43.7	+13.5
Grenada	18.4	35.1	+16.7
WESTERN EUROPE			
Austria	36.7	48.1	+11.4
Denmark	51.5	62.0	+10.5
France	67.6	78.3	+10.7
Greece	26.8	42.7	+15.9
Ireland	44.0	55.1	+11.1
Portugal	57.0	74.3	+17.3
Spain	41.6	57.8	+16.2

Although the overall pattern was one of increases, voting coincidence between some countries and the United States decreased during the period from 1983 to 1986. These included:

	Percent Coincidence 1983	Percent Coincidence 1986	Difference
AFRICA			
Somalia	25.4	15.3	-10.1
ASIA			
Philippines	30.4	19.0	-11.4
Solomon Islands	38.2	16.5	-21.7
LATIN AMERICA			
Haiti	32.1	19.7	-12.4
Paraguay	45.1	26.2	-18.9
EASTERN EUROPE			
Yugoslavia	19.1	13.1	- 6.0

Let me emphasize that in spite of these improvements, the overall level of voting coincidence remains too low. I can assure you of my continuing dedication to further improvements.

SENATOR KASTEN: Have there been any attempts by any Bureaus of the State Department this year to change the Voting Practices Report, such as they tried last year?

ANSWER: No, there have been no attempts to change the format of the Voting Practices Report this year.

QUESTIONS SUBMITTED BY SENATOR KASTEN TO ASSISTANT SECRETARY KEYES

UNDP/UNICEF FUNDING REDUCTION

SENATOR KASTEN: It is most difficult for me to understand, with respect to this Administration and the UN, the two most responsive agencies, the United Nations Development Program and UNICEF, are two agencies which you consistently cut in your budget requests. This year, you are suggesting a $90 million figure for U.N.D.P., some $75 million less than we provided in fiscal year 1985. Once again, you are requesting that UNICEF be nearly halved from what we provided in the current year. These requests make it impossible for many of us to view some of these things with credibility. How do you justify, once again, treating these organizations in the fashion that you have?

ANSWER: The request level for FY 1988 represents the Administration's view of the appropriate support to be given to UNDP and UNICEF in light of the relative value we place on their operations in the context of the U.S. interest.

We believe that UNDP can fulfill its role within the UN system with this level of support from the United States. Because of increased contributions from other member nations, total income for UNDP is increasing significantly. The requested level still leaves the United States among the major donors.

Similarly, the $30.0 million request maintains the U.S. as one of UNICEF's largest donors. The Administration's request is indeed considerably less than its FY-1987 request, although it is substantially higher than the FY-1986 and FY-1985 requests for $27.0 million. We expect that UNICEF's total income in 1988 will at best remain constant and may decline. UNICEF recognized and began making contingency plans for the potential leveling off or reduction in contributions in the early 1980s and has made remarkable strides -- in spite of these limitations -- in reducing child mortality and morbidity rates.

UNITED NATIONS CENSORSHIP OF AFGHANISTAN REPORT

SENATOR KASTEN: Ambassador Keyes, I understand that the United Nations was accused of censoring a report on human rights in Afghanistan. Can you comment on these charges?

ANSWER: The report referred to is a study completed by the United Nations Special Rapporteur on Afghanistan, Dr. Felix Ermacora. Allegations of its censorship by the United Nations are false. These allegations arose from budget-cutting efforts by the UN Secretariat in 1986. This was not a political but an economic decision.

The UN had undertaken to reduce budgetary costs by cutting back on the length of UN reports and the costs of translation services. All the reports presented to the UN General Assembly in 1986 by the special rapporteurs of the UN Human Rights Commission were distributed in two parts. The first, consisting of background, conclusions and recommendations, were translated into all six official languages. The second, consisting of the evidentiary material, last year was made available only in the language of origin. Thus, Dr. Ermacora's supplementary material was solely reproduced in English.

The Department of State believes that Dr. Ermacora's report deserves the widest possible publicity. With this in mind, the United States joined with other members of the Third Committee of the General Assembly in a consensus approval of a decision calling upon the Secretary-General to publish all future reports of the UN Human Rights Commission and its Subcommission in their entirety and in all six official languages.

The United States views this study as valuable evidence vividly underscoring the brutality of Soviet and regime violations of human rights in Afghanistan. Ermacora's report, faithfully reproduced, documents the extensive casualties and loss of life suffered by the Afghan people.

QUESTIONS SUBMITTED BY SENATOR KASTEN TO MR. BISSELL

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

SENATOR KASTEN: You are here today to justify appropriations for our contribution to IFAD. I just have a few questions with respect to that issue today.

First, can you tell the Subcommittee what your assessment is of the work of IFAD, and in your answer, could you indicate whether or not your feel you have enough finished projects or projects which are substantially completed in order to make a judgement on the work of that organization?

Secondly, while we have just finished a replenishment, I understand that there is some talk within IFAD or perhaps among supporters of IFAD, to somehow increase the funding base of the organization. Do you know what that is all about, and are we a party to such negotiations or planning?

Finally, with respect to IFAD, are the other donor countries up to date on their contributions under the current replenishment?

MR. BISSELL: In answer to your general question, Senator, we believe that IFAD is energetically and generally effectively pursuing its mandate of alleviating poverty and malnutrition by concentrating on increasing the productive capacities of the small farmer and landless poor. As I noted earlier in my testimony, IFAD is a relatively young institution, and we have seen a distinct learning curve in the evolution of IFAD's project activities.

IFAD's mandate is a difficult one: small farmers are often isolated, have few resources from which to improve their production, do not represent a potent political force and have largely been bypassed in the introduction of improved technologies. IFAD has labored to develop strategies which can surmount these obstacles with determination and creativity. Like all development institutions, however, some of their efforts are less than successful and we have occasionally differed with IFAD's investment decisions.

You rightly note that few of IFAD's projects have reached completion and it is therefore somewhat difficult to draw firm conclusions about the ultimate impact of IFAD's activities. With only 25 out of 198 projects having been fully disbursed at this stage, it will be a few years before a wide body of impact information is available from ex-post evaluations.

However, the average age of effective projects has now reached four years and IFAD is devoting greater attention and man-power to monitoring and evaluation. In 1986, 16 missions were undertaken for mid-term evaluation of projects. A compilation of information on the findings of these missions will be available shortly. Additionally, we look to information from implementation status studies -- from which the earlier cited information on IFAD's expectation that 80% of projects under implementation will meet or exceed their targets was drawn -- and sector reports to gauge IFAD's performance and progress. Finally, in response to a Congressional request for additional information on IFAD's monitoring and evaluation system, we will soon be providing a detailed report on the development of IFAD's monitoring and evaluation capacities.

Discussions on IFAD's funding base have taken the form of inter-governmental consultations on IFAD's Future Financial Basis and Structure. The first session of these consultations was held last month, and I served as the U.S. representative. The objective of these discussions, which will be followed by third replenishment negotiations beginning in January, 1988, is to seek mutually acceptable solutions to IFAD's deteriorated funding base -- from the $1 billion level provided under the initial capitalization and first replenishment to the $460 million level provided under the current replenishment. The initial round of discussions were far too preliminary in nature to engage in realistic projections of appropriate replenishment levels. I might add, however, that IFAD management has informally mentioned target levels which are surprisingly modest. We will be sure to consult with you as these consultations progress to a stage where consideration is given to funding formulas and replenishment levels.

As regards contributions to IFAD's second replenishment, the Organization for Economic Cooperation and Development (OECD) donors have provided IFAD with 86.3% of their IFAD II instruments of contribution and 51% of their actual payments, compared to 71% of IFAD II instruments and 18% of payments from the Organization of Petroleum Exporting Countries (OPEC) donors.

SUBCOMMITTEE RECESS

Senator INOUYE. This subcommittee will stand in recess until 10 a.m., next Tuesday, March 17, at which time we will hear from Mr. McPherson.

[Whereupon, at 11:50 a.m., Thursday, March 12, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 17, 1987.]

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

	Page
Baker, Hon James A., III, Secretary of the Treasury	1
Prepared statement	10
Bissell, Richard, Assistant Administrator for Policy Programming and Coordination, U.S. Agency for International Development	119
Prepared statement	142
Conrow, James, W., Deputy Assistant Secretary for Developing Nations, Department of Treasury	1, 67
Keyes, Alan, Assistant Secretary of State for International Organization Affairs, Department of State	119
Prepared statement	132
Walters, Hon Vernon A., U.S. Permanent Representative to the United Nations	119
Prepared statement	124

SUBJECT INDEX

AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE
UNITED NATIONS

Page

Bissell, Hon. Richard E., Agency for International Development
Prepared Statement..... 142
Chile, Human Rights in..... 178
Coordination Between UNICEF and A.I.D..... 207
Countries in Arrears on Contributions..... 169
Cuba, Vote on Resolution on..... 174
Cuban Defector..... 179
Cyprus
Issue..... 154
Overview of Force..... 154
D'Amato, Hon. Alfonse M., U.S. Senator from New York:
Prepared Statement..... 144
Questions submitted by..... 117
Determining Organization Budgets..... 147
Fair Share..... 164
Funding for International Organization Programs... 148
Geneva, Human Rights Conference in..... 172, 177
Greece..... 174
Human Rights Violations from Pinochet Government.. 177
IFAD..... 209
IFAD Account..... 150
IFAD Funding..... 210
Increased Budgets in 1984-87..... 149
Inouye, Hon. Daniel K., U.S. Senator from Hawaii:
Opening Remarks..... 119
Questions submitted to Ambassador Walters.... 212
Questions submitted to Secretary Keyes..... 224
Questions submitted to Mr. Bissell..... 233
Kassebaum Amendment..... 146
Kasten, Hon. Robert W., U.S. Senator from Wisconsin:
Questions submitted to Ambassador Walters.... 238
Questions submitted to Assistant Secretary Keyes..... 243
Questions submitted to Mr. Bissell..... 245
Keyes, Hon. Alan L., Assistant Secretary of State
Prepared Statement..... 132
Khao I Dang Camp, Maintenance of..... 166
Khao I Dang Refugee Camp..... 164, 166

	Page
Latin American Development, Technical Assistance for Development	181
Leahy, Hon. Patrick J., U.S. Senator from Vermont:	
Questions submitted to Ambassador Walters	236
Questions submitted to Ambassador Keyes	237
Reasons for No Vote	178
Reform Resolution	168
Salary Kickbacks from Soviet Delegation	156
South Korea	159
Soviet Director of Public Information	175
Spain	174
Spain, Removal of U.S. Bases from	174
Status of UNRWA Contribution	153
Success of Marshall Plan	121
UNICEF	147
UNIFEM	182
United Nations:	
Administrative and Budgetary Reform	145
Comparing UN Salary Structure with Civil Service Employees	156
Information Services at UN	175
KGB Officer in	150
Reduction of Soviet Diplomats at	151
Reform in Assessed Part of UN System	209
Report on UN Voting Practices	167
Role of Surplus Nations in	157
Soviet Assessment and Arrears at UN	171
Soviet Staff at UN	171
Total Soviets in	152
UN Children's Fund	122
U.N. Development Fund for Women	180
UN Development Program	121
UNDP, Importance of	146
Withholding US Contributions to	155
UNRWA Training for PLO	153
Walters, Hon. Vernon A., Permanent Representative to the United Nations	
Prepared Statement	124
WHO Concern with AIDS Issue	183

DEPARTMENT OF TREASURY

Office of the Secretary

	Page
Africa, Cattle-Livestock Projects in	26
Argentina, Situation in	23
Bad Debts	30
Baker, Hon. James. A., Secretary of the Treasury:	
Opening Statement	5
Prepared Statement	10
Bradley Debt Forgiveness Program	40
Brazil, Soybean Export Increases from	32
Brazilian Action on U.S. Banks, Effect of	23
Brazilian Bank Debt	35
Brazilian Debt Payments, Suspension of	22

Page

Chile, Commercial Bank Loan to..... 35
D'Amato, Hon. Alfonse M., U.S. Senator from New York:
Opening Remarks..... 3
Questions submitted by..... 64
DeConcini, Hon. Dennis, U.S. Senator from Arizona:
Questions submitted by..... 58
Environmental Concerns of World Bank..... 24
FMS Debt Reforms..... 2
Foreign Military Sales Program..... 38
Humanitarian Concerns..... 2
IDA VIII Contribution Increase..... 21
Increase in Military Assistance..... 2
Inouye, Hon. Daniel K., U.S. Senator from Hawaii:
Opening Statement..... 1
Questions submitted by..... 44
International Finance Corporation..... 7
Kasten, Hon. Robert W., U.S. Senator from Wisconsin:
Opening Remarks..... 3
Questions submitted by..... 62
Lautenberg, Hon. Frank R., U.S. Senator from New Jersey:
Questions submitted by..... 60
Leahy, Hon. Patrick J., U.S. Senator from Vermont:
Questions submitted by..... 56
MDB Budget at Fiscal Year 1987 Level..... 21
MDB, Cost-Effectiveness of..... 6
MDB, Fiscal Year 1988 Budget of..... 21
MDB, Funding Needs of..... 7
MDB Programs, Reforms in..... 2
Multilateral Investment Guarantee Agency..... 7, 33
National Security Determination..... 39
Nickles, Hon. Don, U.S. Senator from Oklahoma:
Opening Remarks..... 4
Results of Debt Initiative Program..... 6
South American Cooperation with U.S. Debt Strategy 24
Specter, Hon. Arlen, U.S. Senator from Pennsylvania:
Opening Remarks..... 4
Support of Developing Nations..... 5
Trade Liberalization Policies..... 28
Unfair Competition from Foreign Markets..... 28

Deputy Assistant Secretary for Developing Nations

AFDB Management..... 93
African Development Bank and Fund..... 69
Areas of Agreement..... 70
Asian Development Bank and Fund.....68, 96
Botswana, Cattle Ranching in..... 90
Changed IDB Voting Pattern in 1986..... 80
Columbia, IBRD Coal Exploration Project in..... 88
Colombia, IFC Coal Development Project in..... 88

Page

Columbian Coal Project..... 86
Conrow, James W., Deputy Assistant Secretary for Developing Nations. Prepared Statement of 72
D'Amato, Hon. Alfonse M., U.S. Senator from New York:
Prepared Statement..... 77
Questions submitted by..... 117
DeConcini, Hon. Dennis, U.S. Senator from Arizona:
Questions submitted by..... 112
Developing Country Debt Problems..... 85
Difference in Approaches by ADB and IDB..... 77
Different United States Voting Patterns..... 79
Discussion of Environmental Protection by the Development Committee and Member Governments. 91
Harkin, Hon. Tom, U.S. Senator from Iowa:
Questions submitted by..... 114
IDB Annual Meeting in Miami, Florida..... 82
IDB Executive Board, Proposed Voting Procedures by 81
IDB, Proposed U.S. Reforms in..... 90
IDB, Reason for European Membership in..... 82
IDB Replenishment, Size of..... 83
IDB Replenishments, History of..... 83
IDB Voting Procedures, Restructuring of..... 70
Inouye, Hon. Daniel K., U.S. Senator from Hawaii:
Opening Remarks..... 67
Questions submitted by..... 101
Inter-American Development Bank..... 69
Japanese Lending Position..... 97
Kasten, Hon. Robert W., U.S. Senator from Wisconsin:
Questions submitted by..... 116
MDB, Fiscal Year 1988 Budget for..... 68
MDB Lending for Coal and Steel..... 89
MDB Loans, Listing of..... 84
MDB Project Support for Commodities..... 86
MDB Staffs, Presence of Americans of..... 99
MDBS, U.S. Voting Power in..... 85
Nickles, Hon. Don, U.S. Senator from Oklahoma:
Questions submitted by..... 118
U.S. Efforts to Foster Procurement in the MDB's... 99
U.S. Participation in the IDB and Share in Procurement..... 98
United States and Japanese Participation in the ADB and Relative Procurement Shares..... 94

72-981 (256)